ANNEXURE A

DRAKENSTEIN
MUNISIPALITEIT • MUNICIPALITY • UMASIPALA
Paarl | Wellington | Gouda | Saron | Simondium

Written Comments Received on the 2019/2020 Draft Budget

Written Comments Received on 2019/2020 Draft Budget

Considered by the Budget Steering Committee on Wednesday 10 May 2019

Serial No	Date	Comment Received From	Local Community / Other Stakeholders Comments	Amount	Senior Management Comments / Budget Steering Committee Comments	Resolved to Recommend to Executive Mayor and to Council
Column Reference	A	B	C	D	E	F
1	27/02/2018	The Federated Hospitality Association of Southern Africa (FEDHASA) (Appendix 1)	Proposal the amend the Tariff Policy and Tariff Book with regards to the additional sewerage levy per toilet for guesthouses.	N/A	There is no need to amend the Tariff Policy or tariff categories in the Tariff Book. However, it is recommended that guesthouses registered on the business sewerage tariffs (tariff 5.3.4, 5.3.4.1 and 5.3.4.2) receive a 20% rebate to accommodate for the estimated 60% occupancy rate.	That guesthouses registered on the business sewerage tariffs (tariff 5.3.4, 5.3.4.1 and 5.3.4.2) receive a 20% rebate as from 01/07/2019.
2	27/02/2019	Lemoenkloof Guest House (Appendix 2)	Proposal the amend the tariffs with regards to the additional sewerage levy per toilet for guesthouses.	N/A	It is recommended that guesthouses registered on the business sewerage tariffs (tariff 5.3.4, 5.3.4.1 and 5.3.4.2) receive a 20% rebate to accommodate for the estimated 60% occupancy rate referred to by FEDHASA (50% in the case of the Lemoenkloof Guest House).	That guesthouses registered on the business sewerage tariffs (tariff 5.3.4, 5.3.4.1 and 5.3.4.2) receive a 20% rebate as from 01/07/2019.
3	26/03/2019	Paarl Rate Payers' Association (Appendix 3)	Comment on the high refuse removal tariffs of Drakenstein Municipality.	N/A	The administration researched the refuse removal tariffs and related cost structures of surrounding and other municipalities in the Western Cape. It was evident through the benchmarking process that the other municipalities' tariffs were not cost reflective and therefore Drakenstein's cost reflective refuse removal tariffs will be higher than the other municipalities. Some of Drakenstein's tariffs were substantially lower than those of the other municipalities.	That the proposed refuse removal tariffs remain unchanged.
4	23/04/2019	Boschenmeer Home Owners Association (Appendix 4)	Comment on the solid waste tariffs to be levied for Boschenmeer Estate.	N/A	As from 1 July 2019 the Municipality will render the refuse removal service at the Boschenmeer Estate. The full refuse removal tariff will be levied on developed properties and the availability/basic charge on undeveloped erven within the Boschenmeer Estate.	That the refuse removal charges be charged as per the Tariff Book for where the Municipality renders the refuse removal service.

Serial No	Date	Comment Received From	Local Community / Other Stakeholders Comments	Amount	Senior Management Comments / Budget Steering Committee Comments	Resolved to Recommend to Executive Mayor and to Council
Column Reference	A	B	C	D	E	F
5	02/05/2019	Western Cape Government: LG MTEC Integrated Planning and Budgeting Assessment: Analysis of Municipal IDP, SDF and Budget (Appendix 5)	Report received from the Western Cape Government on the Draft IDP, SDF and Budget.	N/A	Management's response on Provincial Government's comments are attached hereto as a PowerPoint presentation made to Provincial Government (Appendix 6)	That the comments received from the Western Cape Government on the 2019/2020 Draft IDP, SDF and Budget and management's response thereon be noted.

Federated Hospitality Association of Southern Africa

SUBMISSION
BY
THE FEDERATED HOSPITALITY ASSOCIATION OF SOUTHERN AFRICA [FEDHASA]

27 June 2018

Dr Johan Leibbrandt
City Manager
Drakenstein Municipality
Civic Centre
Berg River Boulevard
Paarl
7646

TO: Dr Johan Leibbrandt (records@drakenstein.gov.za)
c/c Mr André Abrahams (andrea@drakenstein.gov.za)

Reference: Additional Sewerage Levy

THE HOSPITALITY INDUSTRY OF SOUTH AFRICA

The Federated Hospitality Association of Southern Africa [FEDHASA], established in 1949, is both a registered section 21 Company and an Employers Association and represents the business interests of the hospitality industry on a variety of matters that directly or indirectly impact the South African trading and employment environment.

FEDHASA represents the interests of more than 12,000 direct and associate member establishments in the following sub-sectors of the South African hospitality industry - Hotels, B&Bs, Guest Houses, Home Stay SME's, Game Lodges, Restaurants, Pubs, Taverns, Shebeens, Conference Centre's and Gaming establishments.

The Association has been requested to forward this motivation and submission on behalf of the owners and managers of member establishments located within the jurisdiction of the Drakenstein Municipality. We ask that the submission and motivation be given due consideration by the Municipality.

The Association and a few representative members from our Board would be happy to meet with you in order to discuss the matter further should the need arise.

Members of the association whose establishments fall within the jurisdiction of the Drakenstein Municipality have requested that FEDHASA make contact with the Council in order to motivate and request a considered amendment to the policy with regards the additional sewerage levy per toilet as it applies to the industry at the moment.

The municipal additional sewerage levy per toilet provides for an increase in 2018/19 to R2079 per toilet per annum. This is up 15% from the 2017/18 levy of R1807.90. As it stands at present a small 5 bedroomed accommodation establishment for example, would be required to pay R10,000 per annum - over and above the normal rates and taxes. A very significant cost for a small business we are sure you will agree.

We fully understand that, in terms of the policy document, the municipality is authorized to charge such an additional levy but at the same time sections 3, 4 and 9.5.2(b) of the Municipal Tariff Policy (May 2017) state:

Section 3. Tariff Principles

3.1 Drakenstein Municipality wishes to record that the following tariff principles will apply:

(b) <u>The amount payable by consumers and / or owners will generally be in proportion to usage of the service</u>;

Section 4. Categories of Customers

4.1 <u>Council may differentiate between different categories of users</u>, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

Section 9.5.2 (b) -

A separate fixed monthly sewerage charge <u>shall apply to each category of users based on the costs of the service concerned and the applicable level of service</u> that can vary, e.g. night soil removal service, cesspool service, waterborne sewerage service, etcetera.

In terms of the Tariff List 2018/2019 page 25 Sewerage - additional fees per annum, section 3(d) we note that it refers to *“For any other premises (Business etc.)*” and that it does not differentiate between usage categories and does not therefore consider the proportion of usage.

As a result, an accommodation establishment is currently charged in the same manner as an office block, a retail shopping mall or an industrial premises as examples. It is the opinion of the association that an office block or industrial premises would have a relatively consistent usage month by month throughout the year but that the same could not be said for a B&B or Guest House as usage will not only differ month by month but in most instances day by day.

Whereas toilet facilities in shops, offices, businesses, factories and workplaces would have a constant and high daily usage factor throughout the year, an accommodation establishment usage factor would depend solely on occupancy levels. If for example an accommodation establishment sold 60% of their room nights available over a period of a year it would mean that 40% of their rooms and therefore toilet facilities remain unused and closed over the same period. In addition, even although a certain percentage of the rooms available in an accommodation establishment would be occupied over the period of a year, the daily usage factor per toilet for those occupied rooms would undoubtedly be well below those of the toilet facilities located in shops, offices, businesses, factories and workplaces.

As unused toilet facilities clearly do not create additional costs for the council we would respectfully request that the municipality, having given due consideration to the motivations set out above, reflect on a policy amendment that would differentiate between user categories and more particularly those concerning accommodation establishments.

Finally as we appreciate that it would be all but impossible for the Council to adjust the additional fee based on monthly occupancy levels for each and every accommodation establishment within the jurisdiction, it would we believe, be possible to adjust the additional charge by means of an annual rebate based on occupancy over the period of 12 months. This could perhaps require the submission of a certified annual occupancy statement from each establishment.

This submission was compiled for and on behalf of the Federated Hospitality Association of Southern Africa (FEDHASA) by:

Peter Cumberlege
Legislative Consultant to FEDHASA.
email: info@statsonline.co.za

27 June 2018

DRAKENSTEIN
MUNISIPALITEIT • MUNICIPALITY • UMASIPALA
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Civic Centre, Berg River Boulevard, Paarl 7646

Enquiries: Andre Abrahams
Contact number: 021-807 4515
Reference: 5/9/6
Date: 25 July 2018

FEDHASA
Unit A1A
Century Square Office Park
Heron Crescent
Century City
7441

For attention: Mr P Cumberlege

Dear Sir,

ADDITIONAL SEWERAGE LEVY: HOSPITALITY INDUSTRY

Your letter dated 27 June 2018 has reference:

1. The tariffs and budget related policies (which includes the Tariff Policy) of Drakenstein Municipality are approved annually by Council at the end of May. In terms of the Municipal Finance Management Act, No. 56 of 2003, a municipality may not adjust these tariffs within a financial year unless required so in terms of a financial recovery plan.

2. The municipality can thus not adhere to your request to amend the sewerage tariff for the 2018/2019 financial year.

3. With reference to the sections of the Tariff Policy and the 2018/2019 Tariff List quoted in your letter the following comment:

   3.1 The hospitality industry is categorised as "Business" in our approved 2018/2019 Tariff List. Therefore sewerage charge 3(d) per toilet/urinal do apply for the hospitality industry.

   3.2 Paragraph 3.1(b) in the Tariff Policy (*"The amount payable by consumers and/or owners will generally be in proportion to usage of the service"*) cannot be read in isolation and must be read together with paragraph 3.1(a), (e), (f) and (l) in the Tariff Policy dealing with our tariff principles.

3.3 The municipality does differentiate between different categories of users and as explained above the hospitality industry is categorised as business which has a different set of tariffs than other categories such as domestic consumers. The municipality is however not allowed to differentiate within a category which can lead to unfair discrimination.

3.4 The monthly basic sewerage charge based on the erf size on a declining tariff structure is paid by all the categories of consumers.

3.5 All of our sewerage charges are calculated to recover all our costs of the sewerage service from all our customers.

4. The municipality takes note of the tariff change recommendations in your letter. We will use the content of your letter as an input document for the 2019/2020 budget and tariff calculations which will be tabled to Council in draft format by the end of March 2019.

5. The municipality will advertise the draft budget and tariffs after been approved by Council at the end of March 2019. The closing date for comments is usually towards the end of April each year.

Yours faithfully

DR JOHAN LEIBBRANDT
CITY MANAGER

Lynne Crotz

From: Cindy Lategan
Sent: 23 May 2019 03:54 PM
To: Lynne Crotz
Subject: FW: Toilettariewe: R150.65 per toilet per maand

From: Lemoenkloof Guest House <info@lemoenkloof.co.za>
Sent: Wednesday, February 27, 2019 3:27 PM
To: Andre Abrahams <AndreA@drakenstein.gov.za>
Cc: Cindy Lategan <Cindy.Lategan@drakenstein.gov.za>
Subject: Re: Toilettariewe: R150.65 per toilet per maand

Beste mnr Abrahams.

Baie dankie vir die uitnodiging om vir u ’n motivering te stuur m.b.t. gewysigde toilettariewe vir gastekamers by gastehuise.

Lemoenkloof Gastehuis het in 2017 ’n gemiddelde kamerbesetting van 49.9 persent gehandhaaf.
Ongeveer 90 persent van my klienteel is korporatief, m.a.w. sakemanne en-vroue wat sonder gades en kinders oornag, d.w.s. enkelbesetting.

In 2018 het my besetting met ongeveer 8 % afgeneem. Faktore wat hiertoe aanleiding gegee het was die negatiewe bemarking van Day Zero wat nou sy tol eis.
Een groep wat gekanselleer het het laat weet " We cannot stay in a disaster area". Ander faktore is die verhoogde BTW, die huidige swak ekonomie
en die onopgeloste probleme rondom visumvereistes. U is welkom om die statistiek en nodige verslae by FEDHASA te kry.
Die bedryf se omset het met etlike miljarde rande afgeneem vanaf einde 2017 tot einde 2018.

My gastekamertoilette word dus gemiddeld deur slegs een persoon vir ongeveer 50 % van die jaar gebruik.

Hierbenewens arriveer sakemanne as ’n reel na 5 nm en vertrek voor 8vm. Die gastekamers is meestal leeg gedurende die dag,
in teenstelling met vakansie-oorde waar gaste deur die dag die swembadgeriewe, casino’s, restaurante en kroee benut.
Ek kan nie namens ander Paarlse gastehuise praat nie, maar ek kan u verseker dat Paarl nie ’n toeristebestemming is soos Kaapstad, Stellenbosch of Franschhoek nie.
Die oorgrote meerderheid gastehuise is afhanklik van die sakesektor. Daarsonder sal die gastebedryf in die Paarl doodloop.
Verder is Lemoenkloof reeds 30 jaar aan die gang, en goed gevestig. Ek kan my beswaarlik voorstel dat die prenjie by die ander gastehuise beter sal lyk,
en is oortuig dat die gemiddelde besetting van gastehuise in die Paarl veel laer is as die syfers wat ek hierbo aangegee het.
Gastehuise wat oor die jare hul deure moes sluit, sluit in Roggeland, De Oude Paarl, Berghof, Along the Grapevine, Goedemoed, Rodeberg Lodge, Aan de Paarlberg, en Mooikelder (daar is meer, en die paar nuwe B&B's weeg nie daarteen op nie).
Talle Paarlse gastehuise/hotelle is tans in die mark, insluitende Lemoenkloof, Grande Roche en Cape Valley Manor.

In die lig van bg. wil ek aanvoer dat:
1 Die verbruiks-impak op ’n gastekamer-toilet nie vergelyk kan word met ander besighede se toilette nie. Die meeste besighede het etlike werknemers per toilet, en die toilette word dwarsdeur die jaar gebruik. Gastekamer-toilette word selfs minder gebruik as toilette in huishoudings, wat veel laer tariewe betaal per toilet as gastehuise.

2 Die gastebedryf staan tans met sy rug teen die muur.

3 Lemoenkloof en die ander gastehuise het groot uitgawes aangegaan om die waterkrisis die hoof te bied. Lemoenkloof het ongeveer R300 000 bestee, wat ons
in staat stel om al ons eie water te voorsien. So bespaar ons die munisipale damme 'n maandelikse verbruik van 300 000 liter. En die waterkrisis duur steeds voort.
Tesame met die waterkrisis het die ESKOM-krisis die bedryf 'n harde knou toegedien, met elektrisiteitskostes wat binnekort weer eens verhoog gaan word.
Lemoenkloof se kostes vir 'n kragopwekker en-aansluitings beloop R280 000.

U sal hopelik insien dat dit nie wenslik is om 'n bedryf wat reeds swaar kry, verder te belas met sulke hoe toilettariewe nie.
Ek wil dus voorstel dat u die gastekamer toilettariewe laat verval of verlaag tot 'n nominale tarief van R20.000 - R50.00.

U gunstige oorweging van bg. motivering, asook u positiewe terugvoer sal baie waardeer word.

Vriendelike groete.

Dion Naude

Tel: 021 872 3782
Fax: 086 219 2527
Cnr of Main & Malan Street
Paarl 7646
LEMOENKLOOF
Guest House & Conference Centre
www.lemoenkloof.co.za

On 15 Feb 2019, at 10:29 AM, Lemoenkloof Guest House <info@lemoenkloof.co.za> wrote:

Beste mnr. Abrahams/me Lategan

Tydens my gesprekke met u rakende die toiletheffings vir gastehuise, het u my aangeraai om die volgende Road Show by te woon.
Ek het onlangs gebel, en is meegedeel dat die Road Show iewers in April is.
Kan u asb. vir my die datum en tyd laat weet sodra dit beskikbaar is?

Hierbenewens wil ek graag weet by wie ek my saak kan stel alvorens die nuwe begroting opgestel word?
U terugvoering in die verband sal baie waardeer word.

Vriendelike groete.

Dion Naude

<LOGO 2.jpeg>

On 11 Jul 2018, at 2:28 PM, Andre Abrahams <AndreA@drakenstein.gov.za> wrote:

APPENDIX 3

PBBV PRPA

Paarl Belastingbetalers Vereniging
Paarl Rate Payers' Association

Die Munisipale Bestuurder
Drakenstein

26 Maart 2019

Beste Dr Leibbrandt

Namens die Belastingbetalers van die Paarl wil ons u bedank dat u werk gemaak het van ons versoek dat daar omgeskakel word na elektroniese betaling van motorlisensies. Baie dankie dat u ag geslaan het op ons klagtes oor die lang toue by die Verkeersentrum. Hopelik sal dit ook die taak van u personeel by die sentrum verlig.

Daar is 'n paar punte wat ons u aandag wil bring:

1. Die besonder hoë vullisverwyderingstariewe van Drakenstein wat ver uittoring bo die tariewe by enige ander munisipaliteit in Suid-Afrika. Ons vertrou dat u dit in die nuwe begroting sal aanspreek.
2. Die ophoping van tuinvullis (gemeng met ander vullis) by die oorlaaistasie in Distillerystraat. Ons vertrou dat versnippering spoedig sal plaasvind en dat daar beter beheer sal wees oor wat afgelaai word.
3. Die swak toestand van die Arboretum. Takke is afgekap maar nie verwyder nie, wat 'n brandgevaar veroorsaak. Die lamppale word gevandaliseer en vullis word afgegooi voor die hek van hierdie boom-tuin. Ons wil vertrou dat die Munisipaliteit minstens die vullis en takke sal laat verwyder sodat die park minder onooglik lyk.

Beste groete

Dr Cas van Wyk
Voorsitter: PBBV
078 547 6387
aqueenslin@telkomsa.net

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APPENDIX 4

Hanlie Jacobs

From: May Carolissen on behalf of CustomerCare Maximo
Sent: Tuesday, April 23, 2019 8:15 AM
To: Registry
Subject: FW: Boschenmeer Phase 10 Refuge

From: Karl Feil [mailto:manager@boschenmeerhoa.co.za]
Sent: 23 April 2019 08:11 AM
To: Thys Serfontein; Marise Berning
Cc: riaan@qbond.co.za; 'gideon hugo van der spuy'; CustomerCare Maximo; Sonia Frans; Zane Sias; Ronel van Zyl; Carel Lotz
Subject: Re: Boschenmeer Phase 10 Refuge

Hi Thys

Thanks for the reply.

Although there is some merit in what you have written I don't think it is either fair or judicious of the municipality to burden entities such as the Phase 10 BC with such massive cost increases on the basis that they 'did not contribute to services rendered in the past'. The municipal bylaws at the time were not properly enforced and more importantly, the same bylaws made provision for closed communities to seek their own services, to now penalise them for something that was legitimate and legal is not fair. I don't agree that retrospective punitive charges are justifiable, such application of penalties are normally implemented for people/entities that have deliberately flouted the bylaws or circumvented them through dishonest means, the Phase 10 BC have done neither.

Secondly, in the same way that you are charging EACH home on the rest of our estate for INDIVIDUAL waste collection, which by design is based on the labour, fuel and wage cost for doing so, the proportional costs for doing the same for ONE collection, at ONE point and with ONE team should be drastically lower given that you inset costs are much lower.

I ask that you please seek to reduce their proportional costs for waste removal.

Thanks and regards,

BOSCHENMEER™

KARL FEIL

Tel : +27 21 863 2602
Fax : +27 21 863 4163

From: Thys Serfontein <Thys.Serfontein@drakenstein.gov.za>
Date: Monday, 22 April 2019 at 15:18

To: Marise Berning <marise@propertydevotion.co.za>
Cc: "riaan@qbond.co.za" <riaan@qbond.co.za>, Deon van der Spuy <ghugov@gmail.com>, Karl Feil <manager@boschenmeerhoa.co.za>, CustomerCare Maximo <CustomerCare@drakenstein.gov.za>, Sonia Frans <Sonia.Frans@drakenstein.gov.za>, Zane Sias <Zane.Sias@drakenstein.gov.za>, Ronel van Zyl <RonelZ@drakenstein.gov.za>, Carel Lotz <Carel.Lotz@drakenstein.gov.za>
Subject: RE: Boschenmeer Phase 10 Refuge

Good day Marise
Thank you for the email and letter sent.
My apologies for only replying today as I was out of office .
The tariffs for solid waste management in DM is currently under investigation and compared with surrounding Municipalities. Council will implement during May 2019 new tariffs which public has opportunity until end of April 2019 to provide input.
Hence to the aforesaid Boschenmeer Estate should keep in mind that for about 10 years the Estate has only paid a portion of the real cost for solid waste management as it has made used of a private company to collect and transport waste.
Cost such as;

1. Street cleaning
2. Illegal dumping
3. Rehabilitation cost to the landfill site and
4. Municipal operational cost were not charged and paid by Boschenmeer to Drakenstein Municipality during the previous ten years and therefor the higher cost.

This is why the Estate experienced an increase in its solid waste tariffs to be paid to DM.

I hope that the explanation will be sufficient and should you still need more information, you are welcome to contact me.

Regards

Mr. Thys Serfontein
Senior Manager: Solid Waste and Landfill Management

021 807 6484
082 927 5418
thys.serfontein@drakenstein.gov.za
1 Market Street, Paarl, 7620

DRAKENSTEIN

www.drakenstein.gov.za A city of excellence

SAVE WATER / BESPAAR WATER

From: Marise Berning <marise@propertydevotion.co.za>
Sent: Tuesday, April 16, 2019 2:45 PM
To: Thys Serfontein <Thys.Serfontein@drakenstein.gov.za>
Cc: riaan@qbond.co.za; 'gideon hugo van der spuy' <ghugov@gmail.com>; 'Karl Feil'

<manager@boschenmeerhoa.co.za>
Subject: FW: Boschenmeer Phase 10 Refuge

I apologize, we seem to have a problem with our server, please find attachments

From: Marise Berning [mailto:marise@propertydevotion.co.za]
Sent: Tuesday, 16 April 2019 14:38
To: 'Thys.Serfontein@drakenstein.gov.za' <Thys.Serfontein@drakenstein.gov.za>
Cc: 'riaan@qbond.co.za' <riaan@qbond.co.za>; 'gideon hugo van der spuy' <ghugov@gmail.com>; 'Karl Feil' <manager@boschenmeerhoa.co.za>
Subject: Boschenmeer Phase 10 Refuge

Good afternoon Mr Serfontein,

Please find attached letter for your perusal as well as proof of payments to Drakenstein Municipality over the past 11 months.

We will appreciate it if you could please be of help to us in this matter, as we have tried contacting various people at the municipality, but they could not help us.

If you could urgently consider our request in the letter, I will appreciate it as we have the Annual General Meeting of Phase 10 coming up.

Thank you,

Regards,

BOSCHENMEER PHASE 10 BODY CORPORATE

Property DEVOTION
Devoted to your property needs.
Marise Berning
Manager
Tel: +27 21 880 6673 Fax: +27 21 880 6674
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marise@propertydevotion.co.za www.propertydevotion.co.za

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DRAKENSTEIN MUNICIPALITY

LG MTEC INTEGRATED PLANNING AND BUDGETING ASSESSMENT: ANALYSIS OF MUNICIPAL IDP, SDF AND BUDGET

Western Cape Government

APRIL 2019

TABLE OF CONTENTS

LIST OF ACRONYMS

AQMP	Air Quality Management Plan
BESP	Built Environment Support Programme
CBA	Critical Biodiversity Area
CBD	Central Business District
CMLs	Coastal Management Lines
CMP	Coastal Management Plan
CMP	Coastal Management Programme
CPP	Coastal Private Property
CSIR	Council for Scientific and Industrial Research
DCAS	Department of Cultural Affairs and Sport
DEA&DP	Department of Environmental Affairs and Development Planning
DHS/DOHS	Department of Human Settlements
DLG	Department of Local Government
DM	District Municipality
DWA	Department of Water Affairs
EFZ	Estuary Functional Zone
EIAs	Environmental Impact Assessments
EO	Environmental Officer
EPWP	Expanded Public Works Programme
FBE	Free Basic Electricity
HSP	Human Settlement Plan
ICM Act	Integrated Coastal Management Act
IDP	Integrated Development Plan
IGP	Infrastructure Growth Plan
IIAMP	Integrated Infrastructure Asset Management Plan
IIF	Infrastructure Investment Framework
IPSS	Integrated Performance Support System
IPWIS	Integrated Pollutant and Waste Information System
ISDF	Integrated Strategic Development Framework
ITP	Integrated Transport Plan
IWMP	Integrated Waste Management Plan
IYM	In-year Monitoring

JOC	Joint Operations Centre
kl	kilolitre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt hour (1000 watt hours)
LED	Local Economic Development
LUPO	Land Use Planning Ordinance
MBRR	Municipal Budget and Reporting Regulations
MDG	Millennium Development Goal
MI	Municipal Infrastructure
MIG	Municipal Infrastructure Grant
MIP	Municipal Infrastructure Plan
MMP	Maintenance Management Plan
MVA	Megavolt Amperes (1 Million volt amperes)
MWh	Megawatt hour (1 Million watt hours)
NDHS	National Department of Human Settlements
NEM: AQA	National Environmental Management: Air Quality Act
NEMP	National Estuarine Management Protocol
NRW	Non-revenue Water
O&M	Operations and Maintenance
PMS	Performance Management Systems
RMAs	Responsible Management Authorities
RMP	Road Management Plan
SDBIP	Service Delivery Budget Implementation Plan
SDF	Spatial Development Framework
SOP	Standard Operating Procedure
SWMP	Stormwater Management Plan
WC	Water Conservation
WDFs	Waste Disposal Facilities
WDM	Water Demand Management
WSDP	Water Service Development Plan
WTW	Water Treatment Works
WWTW	Wastewater Treatment Works

SECTION 1: INTRODUCTION

The annual assessment of municipal integrated development plans and budgets presents an opportunity to deepen and strengthen existing partnerships, as well as identify new areas for collaboration to further demonstrate 'Consolidation for Maximum Citizen Impact'. The importance of this assessment is stipulated in Chapter 5 of the Local Government Municipal Systems Act 32 of 2000 (MSA), the MSA Regulations and the Local Government Municipal Finance Management Act 56 of 2003 (MFMA). Provincial assessments afford the provincial sphere of government an opportunity to exercise its monitoring and support role to municipalities as stipulated by the Constitution. In addition, the assessments provide an indication of the ability and readiness of municipalities to deliver on their legislative and constitutional mandates.

This report encapsulates comments by the Western Cape Provincial Government on the draft 2019/20 MTREF Budget, 2019/20 reviewed Integrated Development Plan (IDP) and Spatial Development Framework (SDF).

The assessment covers the following key areas:

- Conformance with the MFMA, MSA & Municipal Budget and Reporting Regulations (MBRR);
- Responsiveness of draft budget, IDP and SDF; and
- Credibility and sustainability of the Budget.

The MBRR A-Schedules, budget documentation, IDP and SDF submitted by the Municipality are the primary sources for the analysis. The quality of this assessment report therefore depends on the credibility of the information contained in the documents submitted by the Municipality.

The Provincial Government plans to meet the executives of your Municipality on **2 May 2019** where the key findings and recommendations of this report will be presented and deliberated upon. The planned engagement will contextualise the Municipality's challenges and responses as taken up in the draft budget, IDP, LED, SDF and various other strategies and plans.

All the information related to the assessment and analysis of the annual budget, IDP and SDF are found in the report below.

SECTION 2: PUBLIC VALUE CREATION

2.1 INTRODUCTION

Public Value is defined as putting the public at the centre of service delivery to continuously improve the quality of life for all within the focus of the mandate of the institution.

This section seeks to determine the Municipality's strategic trajectory over the 5-year period, the key challenges, targets and indicators over the 5-year term of office as well as the status of the council's operational strategies. It assesses the alignment of the budget to the Municipality's Integrated Development Plan's Strategic Objectives, an analysis of its Integrated Development Plan as well as an Environmental Analysis of the Municipality and how the municipalities plan demonstrates maximum citizen impact.

Table 1: Socio-Economic Context and Implications

Key Socio-Economic Indicators	NDP Goals	Local Context	Implications
Demographics	0.5% - 1% per annum by 2030 (Nationally)	2.3% per annum 300 991 to 308 299 (2018 - 2019) (SEP-LG 2018)	Population increase expected to place strain on municipal service; Dependency Ratios and impact thereof on National and Local Government.
Economy	**Economy**	1.4% (2015), 0.7% (2016) and 1.2% (2017 estimate) (SEP-LG 2018)	Current economic growth rates well below NDP target of 5.4 per cent. This should be seen in the context of low economic growth nationally (0.6 per cent) and provincially (1.2 per cent) in 2016. The low economic growth will aggravate unemployment, inequality and poverty and hamper the Municipality's efforts to become sustainable.
Unemployment	14% by 2020	14.1% (Drakenstein, 2018). 10.7% (CWD, 2018) (SEP-LG 2018)	Direct impact on household income and ability to afford basic services. More households register as indigents and qualify for provision of free basic services; further strain on municipal resources.
Education	A learner retention ratio of 90 per cent	Drop-out rates: 26.0% - 2017 28.8% - 2016 (SEP-LG 2018)	Inability to afford school fees, increasing drop-out rates; less teachers can be appointed which in turn increases learner-teacher ratio; availability of library services at schools.
Health	Maternal mortality to fall from 500 to 100 per 100 000 live births	Maternal Mortality was 0.0 per 100 000 live births in 2017. (SEP-LG 2018)	Decline in health outcomes over the period indicates a decline in overall development in the area, decline in a healthy, resilient workforce and increase in pressure on government resources

Key Socio-Economic Indicators	NDP Goals	Local Context	Implications
Poverty	For zero households to be below the R418 monthly income poverty line	42 310 (households below the poverty line, total households 75 071) (SA9)	Lower per capita income amidst constraining economy and population increase; income inequality and Gini coefficient; Human Development Index is improving; poverty translates to greater reliance on social support structures.
Safety and Security	For all citizens to feel safe and free of the fear of crime	33 murders per 100 000 people. (SEP-LG 2018)	Closely linked to other social-ills, crime hampers growth, discourages investment and capital accumulation, cycle of crime and poverty.

Comments:

- According to the 2018 Mid-Year Population Estimate, Drakenstein currently has a population of 300 991, rendering it the largest municipal area within the Cape Winelands District. This total is estimated to increase to 344 705 by 2024 which equates to an a 2.3 per cent growth rate. The estimated population growth rate of Drakenstein is therefore slightly below the estimated population growth of the Cape Winelands of 2.4 per cent.

- A higher dependency ratio means a higher pressure on social systems and the delivery of basic services. A comparison between the 2011 and 2019 estimates show a sharp increase in the number of people within the working age and aged cohorts whilst the aged grouping almost doubled across the same reference period. The substantial increase in the aged category is expected to raise the dependency ratio.

- Unemployment in the Drakenstein municipal area increased marginally from 12.2 per cent in 2015 to 13.4 in 2016 and an estimated 14.1 in 2017. Over the last decade, the unemployment rate has been rising steadily. The Drakenstein unemployment rate in 2017 is much lower at 14.1 per cent than the average for the Province (18.2 per cent) but noticeably higher than that of the Cape Winelands District.

- The drop-out rates for learners within Drakenstein municipal area that enrolled between 2015 and 2016 declined from 27.1 per cent to 26.0 per cent respectively. These high levels of drop-outs are influenced by a wide array of economic factors including unemployment, poverty, indigent households, high levels of households with no income or rely on less than R515 a month and teenage pregnancies.

- Even though real GDP per capita reflects changes in the overall well-being of the population, not everyone within an economy will earn the same amount of money as estimated by the real GDPR per capita indicator. At 75 832 in 2017, Drakenstein real GDPR per capita is marginally below that of the Cape Winelands District's figure of R71 426 as well as that of the Western Cape

- The National Development Plan (NDP) has set a target of reducing income inequality in South Africa from a Gini coefficient of 0.7 in 2010 to 0.6 by 2030. Income inequality has marginally increased in Drakenstein between 2010 and 2017. This figure ranged from 0.58 to 0.59 (2010 - 2017), which represents a 0.2 per cent average annual growth figure for the aforementioned period.

- There has been a general increase in the HDI in Drakenstein (from 0.647 in 2008 to 0.723 in 2017), Cape Winelands and the whole of the Western Cape between 2011 and 2015. Naturally, per capita income as per definition is expected to mimic the trend of HDI and this is clearly displayed in the aforementioned table above. While this trend is consistent for Drakenstein, per capita GDP has not risen at the rate experienced in comparison to surrounding municipalities across the Cape Winelands District.

2.2 INTEGRATED PLANNING ANALYSIS

An Integrated Development Plan (IDP) is the principal strategic planning instrument which guides and informs all planning and development, and all decisions with regard to planning, management and development in a municipality. An IDP provides the strategic direction for all the activities of a municipality over five years linked to the council term of office.

Each municipal council must annually review and may amend the IDP of the Municipality. Should the review process determine that an amendment is required, municipalities are to follow the process as stipulated in Regulation 3 of the Local Government: Municipal Planning and Performance Management Regulations of 2001.

The 2019/20 IDP review of Drakenstein Municipality is the second review of the 2017 - 2022 IDP. The 2019/20 IDP review approach takes into consideration the assessment of its performance measurements and to the extent that changing circumstances so demand and subsequently amended its 2017 - 2022 IDP.

The **attached detailed IDP report (Appendix A)** encapsulates comments by various sector departments including the Departments of Agriculture; Economic Development and Tourism; Cultural Affairs and Sport; Community Safety; Health; Human Settlements; Local Government, Social Development; Water and Sanitation; and Western Cape Education Department.

2.3 MUNICIPAL BUDGET ALLOCATIONS TO IDP STRATEGIC OBJECTIVES

The 2019/20 MTREF budget breakdown in terms of the strategic objectives is indicated in the table below. Drakenstein Municipality budgeted for a total operating expenditure of R2 431.0 million and a total capital budget of R379.3 million in the 2019/20 financial year.

Table 2: Strategic Objectives for the 2019/20 Medium Term Revenue & Expenditure Framework

Drakenstein Supporting Table SA5 & SA6 Reconciliation of IDP Strategic Objectives and Budget (Operating and Capital Expenditure)

Strategic Objective	2019/20 Medium Term Revenue & Expenditure Framework OPEX				2019/20 Medium Term Revenue & Expenditure Framework CAPEX			
R thousand	Budget Year 2019/20	Budget Year 2020/21	Budget Year 2021/22	Average Annual Growth	Budget Year 2019/20	Budget Year 2020/21	Budget Year 2021/22	Average Annual Growth
To promote proper governance and public participation	56 636	59 758	62 636	5.16%	151	–	–	-100.00%
To ensure the financial sustainability of the Municipality in order to fulfil the statutory requirements	63 436	65 735	69 544	4.70%	12 400	20 000	20 000	27.00%
To provide an effective and efficient workforce by aligning our institutional arrangements to our overall strategy in order to deliver quality services	179 031	188 728	199 948	5.68%	27 773	18 479	18 290	-18.85%
To ensure efficient infrastructure and energy supply that will contribute to the improvement of quality of life for all citizens within Drakenstein and to improve our public relations thereby pledging that our customers are serviced with dignity and care.	1 637 352	1 795 930	1 931 235	8.60%	216 616	208 580	200 673	
To facilitate sustainable economic empowerment for all communities within Drakenstein and enabling a viable and conducive economic environment through the development of related initiatives including job creation and skills development.	51 112	55 662	57 958	6.49%	1 415	5 765	3 165	49.56%
To contribute to the health and safety of communities in Drakenstein through the pro-active identification, prevention, mitigation and management of health including environmental health, fire and disaster risks.	233 951	244 693	256 157		12 682	9 480	6 080	
To assist and facilitate with the development and empowerment of the poor and the most vulnerable. These include the elderly, youth and disabled.	209 486	201 290	184 670	-6.11%	108 293	40 795	52 370	-30.46%
Total Expenditure	**2 431 004**	**2 611 795**	**2 762 146**	**6.59%**	**379 330**	**303 099**	**300 578**	**-10.98%**

Comments:

- The strategic objectives included support Schedules SA5 and SA6 perfectly align to those detailed in the IDP Review document.
- Capital budget allocations are however heavily weighted towards the strategic objective: *"To ensure efficient infrastructure and energy supply that will contribute to the improvement of quality of life for all citizens within Drakenstein and to improve our public relations thereby pledging that our customers are serviced with dignity and care."* Although the substantial allocation towards infrastructure expansions are commended, the Municipality should consider distributing funds more equally amongst the various objectives. This being said, expanding the current energy network is a primary basic service delivery priority and hence the capital budget responds adequately. The consistency in allocations across the MTREF for this specific strategic objective is to be commended and indicates a clear vision within the Municipality on its core mandate. The prioritisation of infrastructure developments (drought management strategies, water security, water loss targets, repairs and maintenance allocations, upgrades to infrastructure) is a cornerstone of the Municipality's broader economic development strategy which in turn aligns well to the Municipality's various infrastructure plans detailed in the IDP Review.

- The bulk of the 2019/20 operating budget (67.4% in 2019/20) is also directed towards the infrastructure-related strategic objective mentioned above. This focus bodes particularly well for increased operational costs associated with extending the basic services network.
- The relative small operating (R51.1 million) and capital (R1.4 million) allocations towards the facilitation of sustainable economic empowerment for all communities within Drakenstein in 2019/20 is a case of concern considering that the IDP Review list this objective as being a game changing priority.
- The R179.0 million operating budget allocation towards the provision of an effective and efficient workforce to deliver quality services attests of a proactive effort to improve day-to-day operational capacity to ensure enhanced service delivery.

2.4 ENVIRONMENTAL ANALYSIS

Most of the protected areas (as is typical for the Western side of the Western Cape) are located on the higher mountainous areas and most of the lowland areas have been transformed or severely degraded by agricultural as well as urban development. The remnants of natural vegetation found on the lowlands are mostly endangered or Critically Endangered habitat types with a high number of threatened plant species being present.

The drought has caused an increase in the number of farmers wanting to store additional water usually by constructing new or enlarging in-stream dams. The cumulative impact of the additional storage on the Berg River is of high concern. Although many of the applications have existing abstraction rights, storing of all of the existing rights will have an impact on Ecological Flow Requirements.

Urban expansion around Paarl and Wellington has been very rapid over the last few years with many upmarket residential developments as well as low-cost developments being built. Informal settlement expansion continues to be an issue which poses a threat of pollution to the Berg River. Grazing associated with the informal settlements has also caused degradation as it is not managed and impacts often extend into riparian areas and floodplains.

Conservation efforts are focused around main natural features such as Paarl Mountain, and Rivers such as Berg, Krom, Spruit and Leeuwen, wetlands and floodplains with Stewardship projects on the lower slopes of Paarl Mountain, Groenberg, Wemmershoek and Simonsberg.

In the context of climate change it is increasingly important that intact ecological infrastructure in high risk areas be protected. The Cape Winelands District SDF, currently out for comment includes a strong focus on climate change and disaster risk avoidance.

The Drakenstein Municipality has an active Environmental Management Committee which meets monthly and aims to ensure a common understanding of environmental issues across various departments. Additionally, there is a Project Steering Committee (PSC) on which both DEA&DP and CapeNature serve with the Municipality to ensure alignment between the Spatial Development Framework (SDF) and Environmental Management Framework (EMF) for the Municipality.

The 2018/19 Drakenstein EMF/SDF integration project driven by the Planning and Policy Coordination directorate of DEA&DP in collaboration with the Drakenstein Municipality was well run and included the mapping of Environmental Management Zones within the EMF. This was an extensive and inclusive process that incorporated numerous strategic planning

meetings which were well supported. CapeNature strongly advocated the use of the WCBSP as a key informant.

The SDF should in future expand on the how Western Cape Biodiversity Spatial Plan (WCBSP) has taken climate change into consideration and make the link as to how using the WCBSP as a key informant will help reduce disaster risk to settlements as well.

The Municipality has a designated Waste Management Officer, who is responsible for co-ordinating waste management matters in the Municipality. However, additional personnel are needed to take care of all their other waste management responsibilities including the need to capture and report on accurate waste. The Municipality drafted a 3rd generation Integrated Waste Management Plan (IWMP), which was submitted to DEA&DP for assessment and endorsement, and met the minimum requirements as stipulated in the National Environmental Management Waste Act (NEM: WA). It must be ensured that the IWMP is approved by Council prior to implementation. The Municipality must forward the Council Resolution regarding the approval of the 3rd generation IWMP. The Municipality needs to ensure alignment of the waste management progress report (Annual Report 2017/18 (Volume I) with the IWMP implementation plan and provide the final copy of the Annual Report to the DEA&DP.

The waste management facilities are required to register on IPWIS and reporting is currently fully compliant. Landfill airspace is of great concern. The process of applying to have an older cell combined with the current landfill site is underway. A small MRF has been allowed to operate next to the Wellington Landfill. However, the facility is not covered and the waste management process involves manual sorting. This is therefore not an optimal process and waste that could be recycled still ends up on the WDF. The IDP needs to be updated based on the recommendations outlined in the Assessment of the Municipal Integrated Waste Management Infrastructure: Cape Winelands District Report to include the operational compliance cost and rehabilitation compliance cost for their identified waste management facilities; and the cost of integrated infrastructure for the Municipality up to 2030 for the establishment of a backup transfer station/MRF and the closure and rehabilitation of Wellington Landfill site.

The Municipality has embarked on a vigorous Waste Minimisation program to divert green waste and builders' rubble from the landfill site and a dedicated facility has been constructed for this purpose however some of these facilities are prone to vandalism.

Climate change is generally increasing the risk profiles of Western Cape municipalities associated with increased likelihood of drought and ongoing water scarcity, flash floods, heat waves and extreme temperatures and increased fire risk leading to run away and uncontrollable fires. The Disaster Management Risk Profile for your municipality (which will include climate change risks) as well as the Provincial Risk Profile which will be released by WCG in 2020.

From a mitigation perspective, municipalities have a role to play in reducing emissions in their own operations and encouraging their residents to move to a low carbon future. A particular action that municipalities can support is allowing small-scale embedded generation (SSEG)and putting in place appropriate tariffs that support residential, commercial and industrial consumers to invest in renewable energy, which the Municipality currently allows although work on the tariffs and policies is still underway.

Urbanisation gives rise to an increase in developments for housing as well as economic developments and this is a risk to the ambient air quality. The increasing air pollution negatively affects the health of the community in these areas. The Western Cape Department of Environmental Affairs and Development Planning's Directorate Air Quality Management (D: AQM) currently has an Ambient Air Quality Monitoring Station located in the Drakenstein Municipality (Paarl).

In terms of the National Environmental Management: Air Quality Act (NEM: AQA), measures in respect of dust, noise and offensive odour is a Local Government responsibility. A By-law must be developed and adopted to ensure compliance to air quality management. As per Section 14(3) of the NEM: AQA, each municipality must designate an air quality officer (AQO) from its administration. As per Section 15(2) of the NEM: AQA, each municipality must include in its IDP an Air Quality Management Plan (AQMP). The Drakenstein Municipality is compliant with regards to the designated AQO and the adopted AQMP.

An AQMP budget allocation needs to be secured in the IDP. Funds should ideally cover the following: air quality monitoring (passive or continuous monitoring of air pollutants), staff training and implementing air quality intervention strategies.

2.4.1 Strategic Overview and Important Matters

For this section, each component will draft a tailored assessment (with latest information) for each municipality in terms of budget responsiveness without losing focus of the longer term challenges facing the Province, the golden thread being climate change, drought, and sustainable resource management (e.g. water security) and explaining the implications of their respective functional area in each municipality.

The reference to functional area refers to the participating internal DEA&PD components and include the following; Biodiversity Management, Development Management, Waste Management, Pollution and Chemical Management, Coastal Management, Climate Change, Sustainability, Air Quality Management.

2.4.2 Current Work Undertaken

WCG is in the process of reviewing the Western Cape Climate Change Response Strategy and inputs from municipalities will be important in the revision. We are also working with sector departments on development specific sector plans and how these sectors need to respond to climate change. By mainstreaming climate change into sector functions, it will filter down to municipal decision-making and planning through the municipal support efforts provided by the various WCG sector departments.

The Directorate: AQM hosts Quarterly Air Quality Officer's Forums and Air Quality Management Plan Working Groups 1 - 3; to serve as platform for AQO's to share their achievements and challenges with regards to noise, dust and offensive odour management in their jurisdictional areas. It is imperative for the Municipal Air Quality Officer to attend these Forums in order to successfully implement the mandates of air quality management, as assigned by the NEM: AQA.

2.5 KEY FINDINGS, RISKS/RECOMMENDATIONS

The cumulative impact of the additional storage on the Berg River is of high concern. Although many of the applications have existing abstraction rights, storing of all of the existing rights will have an impact on Ecological Flow Requirements.

Informal settlement expansion continues to be an issue which poses a threat of pollution to the Berg River.

The SDF should in future expand on the how WCBSP has taken climate change into consideration and make the link as to how using the WCBSP as a key informant will help reduce disaster risk to settlements as well.

The Municipality needs to ensure alignment of the waste management progress report (Annual Report 2017/18 (Volume I)) with the IWMP implementation plan and provide the final copy of the Annual Report to the DEA& DP.

The IDP needs to be updated based on the recommendations outlined in the Assessment of the Municipal Integrated Waste Management Infrastructure: Cape Winelands District Report.

An AQMP budget allocation needs to be secured in the IDP. Funds should ideally cover the following: air quality monitoring (passive or continuous monitoring of air pollutants), staff training and implementing air quality intervention strategies.

SECTION 3: ECONOMIC SUSTAINABILITY

3.1 INTRODUCTION

This section examines if the tabled 2019/20 MTREF Budget is responsive from an economic and socio-economic perspective and the Municipality's ability to meet the legitimate expectations of the community for services from its limited resources in order to effect inclusive growth and contribute towards achieving maximum citizen impact.

3.2 ECONOMIC GROWTH AND DEVELOPMENT

3.2.1 Promoting Inclusive Economic Growth

(1) Provincial and Municipal Capital Budget Expenditure 2019/20

The Western Cape Government will in 2019/20 direct an estimated R194.6 million in infrastructure spending towards the Municipality whilst the Municipality will commit an additional R379.3 million from its own budget towards capital expansions. Collectively, the WCG and the Municipality will therefore spend R574.0 million within the municipal boundaries.

Table 3: Comparison of Provincial and estimated Drakenstein Municipal Infrastructure Expenditure: 2019/20 (R'000)

Type	2019/20		
	Provincial Infrastructure Spend	Municipal Infrastructure Spend	Total
Economic Infrastructure	***76 000***	***31 790***	***107 790***
Road Transport and Public Works	*76 000*	*31 790*	*107 790*
CapeNature	-	-	
Social Infrastructure	***118 635***	***65 020***	***183 655***
Education	*5 000*	-	*5 000*
Health	*5 868*	-	*5 868*
Social Development	*597*	-	*597*
Housing	*107 170*	*65 020*	*172 190*
Trading Services		***186 126***	***186 126***
Electricity		*46 930*	*46 930*
Water		*101 255*	*101 255*
Waste Water Management		*22 656*	*22 656*
Waste Management		*15 285*	*15 285*
Other		***96 394***	***96 394***
Total Infrastructure Spend	***194 635***	***379 330***	***573 965***

Source: 2019 Western Cape EPRE (Provincial spend), National Treasury Database (Municipal spend)

- The Western Cape Government has adopted a more coordinated, integrated and strategic approach to planning and budgeting for infrastructure which aims to respond to the public infrastructure challenges facing the Province. The Provincial Infrastructure-led Growth strategy seeks to facilitate economic and socio-economic progression at

grassroots level with a focus on maximising citizen impact. Economic and socio-economic progression by improving productive capacity, attempts to investigate infrastructure spending patterns and determines if infrastructure spending is efficient and effective. Infrastructure investment considers the optimal investment location; i.e. finding a central point (place and space) of investment which will yield maximum returns and positive impact to where other forms of enabling infrastructure is required.

- Infrastructure development through this strategic objective as per the IDP Review and support Schedule SA5 and SA6 is consistent with previous years and is prioritised across the ensuing MTREF.

- Provincial allocations are focused largely on road transport infrastructure (R76.0 million in 2019/20), housing (R107.2 million), education (R5.0 million) and health (R5.9 million). This supports the anticipated demand for public services which goes some way in alleviating the increased socio-economic hardship across the region as well as at national level. This hardship is expected to impact on poorer households and their ability to afford quality services. The burden will in turn be passed to local municipalities who must direct their revenue streams to extend services to indigent households.

- Population growth, as mentioned in the SEP-LG 2018, and the subsequent increase in new housing developments, increase the demand for basic services which necessitates the expansion of the bulk infrastructure network. Such expansions are however extremely capital intensive, meaning that less money will be available to maintain the current infrastructure network and to reduce backlogs. Less money will in turn be available to progressively roll-out services to informal settlements. Trading services is allocated a large share of the municipal infrastructure allocations (as per budget Schedule A5) with R186.1 million (49.0 per cent) of total capital expenditure for 2019/20. This is consistent with the Municipality's strategic objective relating to maintaining and expanding basic infrastructure as a catalyst for economic development. Budget Schedule SA6 further prioritises trading services infrastructure with 57.1 per cent (R216.6 million) of the total capital budget.

- From an inclusive planning perspective, the municipal LED strategy makes mention of a key output of the revised strategy, namely "Priority business infrastructure projects should promote economic diversification." However, the linkages/alignment of this output to key planning documents such as the SDF (Capital Investment Framework, specifically) are to be further entrenched as well as implications for the growing socio-economic dynamic which is soon to beset the region given the large rural nodes and spill overs from the City of Cape Town in terms of job-seekers and the added burden this will place on municipal infrastructure and resources.

- The LED strategy aims to align small business suppliers to the Municipality and large companies should be located in the industrial parks. This initiative is applauded, but it suggested that the Municipality should also explore procurement by privately–owned companies by getting retail and wholesale outlets to buy locally produced goods and where not available, to undertake initiatives to make possible their local production.

(2) Potential/Expected Impact of resource allocations

- The proposed infrastructure allocations will definitely have a positive impact on addressing the increasing demand for social infrastructure and basic services that is driven by the rapid population growth.

- Bulk infrastructure development and investment extends basic services to those it has not yet reached, as well as ensures that continued quality services can be provided to those already receiving them. This has a concomitant effect on the consumer's willingness to pay for services, has the potential to increase the revenue base of the Municipality and improves the quality of life of its citizens.

3.2.2 Increasing Employment Opportunities

(1) Budget allocations and Implications

- The unemployment rate in the Drakenstein municipal area increased marginally from 12.2 per cent in 2015 to 13.4 in 2016 and an estimated to increase further to14.1 in 2017. Over the last decade, the unemployment rate has been rising steadily. The 2017 rate is however still lower than the average for the Western Cape Province (18.2 per cent) but noticeably higher than that of the Cape Winelands District.

- The Municipality has displayed in its allocations in budget Schedule A5 as well as throughout the IDP Review, the importance of directing funds towards water infrastructure (R101.2 million or 54.3 per cent of the trading services capital budget allocation for 2019/20) and drought resistant strategies. The prioritisation of water infrastructure has direct linkages to raising capacity in the agriculture, forestry and fishing sector is vital for employment prospects across the Municipality.

- The IDP Review and tabled budget (support schedules SA5 & SA6) makes mention of two key strategic objectives that are to address the employment situation across the region:

  - To provide an effective and efficient workforce by aligning our institutional arrangements to our overall strategy in order to deliver quality services.

  - To facilitate sustainable economic empowerment for all communities within Drakenstein and enabling a viable and conducive economic environment through the development of related initiatives including job creation and skills development.

- The emphasis placed on the expansion of basic infrastructure for economic development and growth in particular is refreshing in relation to the expansion of economic sectors that hold the most potential to create jobs. This is backed by a notable capital budget allocation (support Schedule SA6) of R216.6 million in 2019/20 (57.1 per cent of the total capital budget).

- Support schedule SA18 indicates that the Municipality receives R5.1 million in the form of an EPWP incentive grant from National Government whilst also receiving an Integrated Urban Development Grant allocation of R49.0 million.

(2) Potential/Expected Impact of resource allocations

- The creation of 2000 job opportunities through EPWP and LED will provide poverty relief (albeit temporary) by bringing much needed income to households particularly if those jobs could be translated into permanent employment opportunities.
- This may in turn reduce the number of indigent households within the area and consequently reduce the number of households reliant on the Municipality for free basic services. The Municipality should pursue regional partnerships with neighbouring municipalities to expand employment opportunities through joints projects which could further benefit local communities.
- The provision of employment opportunities also provides those involved with work experience and related skills and making candidates more employable and attractive to future employers.

3.2.3 Creating Public Value through Basic Services Provision

(1) Budget allocations and Implications

- Support schedule SA9 indicates that there are an estimated 75 071 households within the municipal area in 2019/20. This figure aligns with budget Schedule A10 which indicates that the Municipality intends to provide basic services to the following number of households: Water, 74 417; Sanitation, 74 417; Energy, 74 282; Refuse removal effuse, 40 386. While the above stated figures are generally consistent over the MTREF period, a large discrepancy is noted between support Schedule SA9 and the number of households to be provided with refuse removal services in budget Schedule A10.
- The Municipality's operating and capital allocations in the 2019/20 tabled budget respond well to the current electricity service delivery reality. Operating allocations gradually increases across the MTREF as the Municipality anticipates increasing the number of households that receive electricity above the minimum service level. Significant capital allocations are further reflective of a proactive commitment to ensure the longevity of current electricity infrastructure.
- In completion of A10 (basic service delivery measurements), the Municipality has listed its intention to provide free basic services to the value of R66.0 million in 2019/20. This figure raises marginally over the MTREF period to R72.9 million (2020/21) and R80.1 million (2021/22) respectively. The Municipality plans to provide free basic water to 18 500 households across all functional areas of basic service delivery, namely, water, sanitation, electricity and refuse removal.
- Despite the IDP placing a strong emphasis on waste minimisation, the operating budget allocation towards this function decreased notably between 2018/19 (original budget allocation) and 2019/20.
- The prioritisation of basic service delivery, specifically in terms of capital budget allocations, bodes well to address service delivery shortfalls.

(2) Potential/Expected Impact of resource allocations

- In the light of the growing population coupled with the growth in the number of indigent households, the allocations definitely have a positive impact on socio-economic development in the Drakenstein area.

- Free basic service allocations will bring much needed poverty relief to indigent households within the municipal area.

3.3 UTILISING PROCUREMENT AS A LEVER TO IMPROVE PLANNING, BUDGETING AND PROCUREMENT STRAGTEGIES

The alignment between the budgeting and procurement planning process has become increasingly important based on recent statistics within municipalities in terms of the optimal and effective utilisation of their budgets. For this reason, the compilation of a demand plan and procurement plan needs to complement the Integrated Development Plan (IDP), municipal SDBIP, linked to the budget to ensure that funding for the acquisition of goods and services are available.

Procurement planning is becoming a national concern, hence MFMA Circular 94 was issued requiring the Accounting Officer to submit the procurement plan together with the Budget, Service Delivery and Budget Implementation Plan (SDBIP) in an effort to address the weak planning processes, as slow spending of capital budgets has a negative impact on service delivery.

By developing a procurement plan that takes into account environmental and social aspects in addition to traditional economic or financial considerations in conjunction with the demand plan to source items of a strategic nature and where possible source alternate suppliers or alternate commodities.

The purpose of this analysis is to provide a current status of the implementation of a demand management system by illustrating the potential influences procurement planning has on the local economy and citizens by ensuring an alignment between the IDP, budget, SDBIPS and procurement plans and ensuring service delivery objectives are met. Furthermore, to ensure that key socio-economic status indicators are influenced by the procurement planning activities within the Municipality.

In order to ensure maximum citizen impact key projects identified on the procurement plan needs to be prioritised as an effort to improve the delivery of municipal services and impact on the economic status from a citizen focus perspective.

It must be noted that the Drakenstein Municipality has challenges in the following areas as it relates to the procurement planning process, i.e.:

- User-departments not adhering to committed timeframes and dates as captured in the procurement plan; and

- Proper procurement planning by end-user departments remains a challenge.

Going forward the Municipality should ensure that dates as committed to in the procurement plan are adhered to and drive the process of accountability amongst project managers by means of monthly performance management meetings.

Procurement Planning should be utilised as a strategic tool to drive local economic development (LED) with key linkages and partnerships within the Municipality that draws a nexus between its IDP, budget planning processes that are associated with procurement initiatives. Utilising procurement as a strategic enabler seeks to create an opportunity for role-players to not only engage on the key socio-economic challenges, but more importantly to share experiences which contribute to all stakeholders working together to uplift and grow our communities and grow the local economy.

In view of the above the Provincial Treasury is in the process of putting together a procurement planning toolkit to assist municipalities in the procurement planning process that is aligned to its budget and IDP. From the perspective of the Municipality it is therefore imminent that the Municipality puts in place a stakeholder engagement plan to facilitate such engagements with its Programme and sub-Programme managers. Key linkages with its LED component must also be established to support the procurement planning and an economically sustainable delivery model.

3.4 SPATIAL ALIGNMENT, RESPONSIVENESS AND PERFORMANCE

With the Drakenstein SDF Review process underway, now is the perfect time to ensure that both a Capital Expenditure Framework and Implementation Plan are included in the SDF. The latter components of an SDF are key to ensuring that SDF's move beyond being visionary/high level documents, to a framework that facilitates the implementation of the principles of spatial justice, spatial sustainability, spatial resilience and efficiency. The implementation of these principles is far more likely to be achieved if the requirements of an IP, which include budgets, targets, dates and required resources, are met as per the planning legislation.

Given that there are not endless resources, the Municipality needs to prioritise where investment in infrastructural services and facilities should be directed. From a strategic perspective there can be numerous catalytic zones, but they cannot all be the focus of infrastructural spending at the same time. The spatial depiction of development programmes will assist in the prioritisation of this spending.

3.5 RESPONSIVENESS: MAIN POINTS AND RISKS/FINDINGS

With the Drakenstein SDF Review process underway both a Capital Expenditure Framework and Implementation Plan should be included in the SDF. The spatial depiction of development programmes will assist in the prioritisation of this spending:

- Strengthening of monitoring capacity of SCM staff in order to provide consistent oversight to end-user departments;
- Improved planning by end-user departments to ensure adherence to committed timeframes as captured in the procurement plan and drive a process of accountability amongst project managers; and
- Utilise the procurement as a lever to positively impact socio-economic challenges.

SECTION 4: FINANCIAL SUSTAINABILITY

4.1 REVIEW OF THE PREVIOUS YEAR'S BUDGET

Part 4.1(1): The Financial Health and Performance – year ended 30 June 2018

The assessment of the financial health and performance is an integrated process involving a review of the Municipality's audited annual financial statements and audit report using selected financial ratios/norms. The results of the financial ratios/norms are used to support financial decisions and to identify factors which may influence the financial stability of the Municipality. It is also to enable timely corrective actions where service delivery may be at risk. The assessment is according to the selected key financial ratios/norms as per National Treasury MFMA Circular No. 71, as submitted by the Municipality.

4.1.1 The Financial Performance as per the Audited Annual Financial Statements

Table 4: Financial ratios and norms

Financial ratios		Norms	2016 Audited	2017 Audited	2018 Audited	Comments
Asset Management						
1.	Capital Expenditure to Total Expenditure	**10 – 20%**	17.0%	21.3%	23.8%	The ratio results have improved over the period, and have moved outside of the upper limit of the norm. This speaks to higher spending on infrastructure and acceleration in service delivery.
2.	Impairment of Property, Plant and Equipment, Investment Property and Intangible Assets (Carrying Value)	**0.00%**	0.0%	0.0%	0.5%	The ratio results have deteriorated in 2018. This ratio should be read in conjunction with the ratio for repairs and maintenance below.
3.	Repairs and Maintenance as a % of Property, Plant and Equipment, Investment Property (Carrying Value)	**8%**	4.3%	3.7%	4.4%	The ratio results have fluctuated over the period, and have remained below the National Treasury norm. This indicates that insufficient expenditure is being incurred on repairs and maintenance to the extent that it could impact on the use of the assets and have a resulting increase of impairment of useful assets, as evidenced in the ratio above.
Debtors Management						
4.	Bad Debts Written-off as % of Provision for Bad Debt	**100%**	45.6%	105.0%	62.4%	The ratio results have fluctuated over the period and is below the norm for 2018. Reasons for not writing off all the bad debt provided for must be determined and considered in light of the bad debt policy that may need to be revisited.

	Financial ratios	Norms	2016 Audited	2017 Audited	2018 Audited	Comments
5.	Net debtor's days	**≤ 30 days**	44 days	50 days	45 days	The ratio results have fluctuated over the period, and have remained outside the National Treasury norm. This indicates that the Municipality is exposed to Cash Flow risk as a portion of cash is tied up in debtors where the Municipality experiences challenges in the collection of outstanding amounts. Application of the credit policy may improve this ratio.
6.	Collection Rate	**95%**	95.8%	95.9%	93.3%	The ratio results have fluctuated over the period and 2018 is marginally below the norm.
Liquidity Management						
7.	Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants)	**1 – 3 months**	2 months	1 month	0.8 month	The ratio reflects a significant decline over the period with the 2018 ratio below the National Treasury norm. The Municipality is at a higher risk in the event of financial shocks/set-backs and its ability to meet financial obligations.
8.	Current Ratio	**1.5 - 2:1**	1.30	1.17	0.95	The ratio results have deteriorated over the period, and have remained outside the National Treasury norm.
Liability Management						
9.	Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	**6 – 8%**	13.1%	11.1%	13.7%	The ratio exceeds the Norm and could pose a risk to the Municipality should changes or fluctuations in financing costs arise.
10.	Debt (Total Borrowings)/ Revenue	**<45%**	57.7%	61.6%	78.7%	The ratio is significantly above the NT norm. This indicates that the Municipality does not have the capacity to take on any additional debt.
Efficiency Management						
11.	Net Operating Surplus Margin	**≥ 0%**	8.1%	-0.7%	-6.0%	The ratio results have deteriorated over the period. The 2017 and 2018 ratio results indicate that the Municipality is operating at a deficit and measures must be implemented to address this situation to ensure the financial sustainability of the Municipality.
12.	Net Surplus/Deficit Electricity	**0 – 15%**	17.7%	17.9%	18.0%	The ratio is above the NT norm and all costs associated with the delivery of electricity are at least recovered with a margin for future growth.
13.	Net Surplus/Deficit Refuse	**≥ 0%**	-14.1%	5.7%	-5.9%	The ratio is erratic over the period and raises concern regarding the veracity costing and tariff setting.

Financial ratios		Norms	2016 Audited	2017 Audited	2018 Audited	Comments
Distribution Losses						
14.	Electricity Distribution Losses (Percentage)	**7 – 10%**	8.2%	4.0%	6.6%	The losses are being managed.
15.	Water Distribution Losses (Percentage)	**15 – 30%**	13.1%	10.1%	14.9%	The ratios have fluctuated over the period, and have remained below the National Treasury. This reflects that distribution losses are well managed.
Revenue Management						
16.	Revenue Growth (%)	**= CPI** **CPI**	8.4% 6.4%	9.6% 5.3%	2.7% 4.7%	The ratio results have fluctuated over the period. The 2018 ratio result is below the CPI rate.
17.	Revenue Growth (%) - Excluding capital grants	**= CPI** **CPI**	8.2% 6.4%	10.4% 5.3%	-1.8% 4.7%	The ratio results have fluctuated over the period. The 2018 ratio result is below the CPI rate, which indicates negative growth.
Expenditure Management						
18.	Irregular, Fruitless and Wasteful and Unauthorised Expenditure/Total Operating Expenditure	**0%**	0.0%	0.0%	1.8%	The ratio results have deteriorated over the period. The 2018 ratio result is outside the National Treasury norm and causes should be investigated and measures put in place to bring it in line with the National Treasury Norm.
19.	Contracted Services % of Total Operating Expenditure	**2 – 5%**	8.0%	8.7%	8.7%	The ratio results have remained fairly stable over the period, and have remained outside the National Treasury norm.

Summary and recommendations:

Asset Management

- The higher capital spend is noted and the Municipality to ensure the sustainability thereof.

Debtors Management

- Bad debts written-off to be in line with provision. Debtors days not within the norm and requires application of credit/debt collection policy to improve collection days.

Liquidity Management

- Ratios are concerning and present liquidity pressures faced by the Municipality which requires urgent attention.

Liability Management

- Ratios are significantly outside the NT norms. Attention is required to align these ratios to the norms.

Revenue Management

- Growth rate (excluding capital grants) is negative.

Expenditure Management

- Increase in Irregular expenditure which must be addressed. Contracted Services is above norm.

4.2 REVIEW OF THE NEW (2019/20) MTREF

4.2.1 Expected Outcome for Current Financial Year

Table 5: Audited and Budget Performance

Description	2016/17				2017/18				2018/19			
R thousands	Adjusted Budget	Audited Outcome	Difference	Diff %	Adjusted Budget	Audited Outcome	Difference	Diff %	Original Budget	Adjusted Budget	Difference	Diff %
Financial Performance												
Property rates	225 046	226 129	1 083	0.5%	246 447	245 517	(929)	-0.4%	305 831	275 982	(29 849)	-9.8%
Service charges	1 404 527	1 232 941	(171 587)	-12.2%	1 376 008	1 314 086	(61 922)	-4.5%	1 531 918	1 399 081	(132 837)	-8.7%
Investment revenue	19 385	22 063	2 678	13.8%	21 340	21 665	325	1.5%	22 000	12 000	(10 000)	-45.5%
Transfers recognised - operational	177 382	153 789	(23 594)	-13.3%	210 757	152 320	(58 437)	-27.7%	265 112	258 836	(6 277)	-2.4%
Other own revenue	150 779	157 625	6 846	4.5%	123 973	153 511	29 538	23.8%	124 465	186 920	62 455	50.2%
Total Revenue (excluding capital transfers and contributions)	1 977 119	1 792 546	(184 574)	-9.3%	1 978 524	1 887 098	(91 426)	-4.6%	2 249 326	2 132 818	(116 508)	-5.2%
Employee costs	462 976	462 451	(524)	-0.1%	531 751	567 468	35 717	6.7%	625 426	637 181	11 755	1.9%
Remuneration of councillors	27 188	26 343	(845)	-3.1%	29 462	28 062	(1 399)	-4.8%	31 229	30 147	(1 082)	-3.5%
Depreciation & asset impairment	190 506	175 304	(15 203)	-8.0%	190 506	186 527	(3 979)	-2.1%	201 673	220 426	18 753	9.3%
Finance charges	95 729	93 990	(1 739)	-1.8%	125 733	132 450	6 716	5.3%	144 574	166 260	21 685	15.0%
Materials and bulk purchases	629 717	696 737	67 020	10.6%	714 175	673 062	(41 113)	-5.8%	763 633	721 919	(41 714)	-5.5%
Transfers and grants	736	5 489	4 753	645.6%	11 498	10 532	(966)	-8.4%	20 563	24 272	3 709	18.0%
Other expenditure	655 989	362 251	(293 737)	-44.8%	515 537	437 918	(77 619)	-15.1%	547 593	500 167	(47 426)	-8.7%
Total Expenditure	2 062 841	1 822 565	(240 276)	-11.6%	2 118 661	2 036 019	(82 642)	-3.9%	2 334 693	2 300 373	(34 320)	-1.5%
Surplus/(Deficit)	(85 722)	(30 019)	55 702	-65.0%	(140 137)	(148 920)	(8 783)	6.3%	(85 367)	(167 555)	(82 189)	96.3%
Transfers recognised - capital	66 417	65 440	(977)	-1.5%	177 207	155 685	(21 522)	-12.1%	84 933	161 194	76 261	89.8%
Contributions recognised - capital & contributed assets	–	–	–		–	–	–		–	10 929	10 929	
Surplus/(Deficit) after capital transfers & contributions	(19 304)	35 421	54 725	-283.5%	37 070	6 764	(30 306)	-81.8%	(434)	4 567	5 001	-1153.5%
Share of surplus/ (deficit) of associate	–	–	–		–	–			–	–		
Surplus/(Deficit) for the year	(19 304)	35 421	54 725 –	-283.5%	37 070	6 764	(30 306)	-81.8%	(434)	4 567	5 001	-1153.5%
Capital expenditure & funds sources			–									
Capital expenditure	728 066	544 360	(183 706)	-25.2%	838 669	652 978	(185 691)	-22.1%	454 040	615 304	161 263	35.5%
Transfers recognised - capital	66 417	65 440	(977)	-1.5%	160 320	121 970	(38 350)	-23.9%	74 507	157 489	82 982	111.4%
Public contributions & donations	–	–	–		–	–	–		–	–		
Borrowing	608 197	453 019	(155 178)	0.0%	597 245	475 935	(121 310)	0.0%	331 835	390 673	58 838	17.7%
Internally generated funds	53 452	25 900	(27 552)	-51.5%	81 104	55 073	(26 031)	-32.1%	47 699	67 142	19 444	40.8%
Total sources of capital funds	728 066	544 360	(183 706)	-25.2%	838 669	652 978	(185 691)	-22.1%	454 040	615 304	161 263	35.5%

Source: 2019/20 MTREF Budget and 2016/17 and 2017/18 Annual Financial Statements and LG database

Findings:

For the most recent audit outcome the Municipality realised 95.4 per cent of the planned operating revenue and although within the national norm the budgeted shortfall is a material amount of R91.43 million. The Municipality further adjusted the operating revenue budget downwards for the 2018/19 by R116.51 million which was in main due to under realisation of water service charges (R64.52 million), electricity service charges (R45.90 million) and property rates (R29.85 million) which affects the credibility of the revenue budget projections of service charges.

The Municipality performed well with the implementation of the operating expenditure budget the only variance is noted for other expenditure and is due to delays with the implementation of top structures.

The spending of the capital budget remains a concern as the Municipality achieved material underspending against the mid-year adjustment budgets. For the past three financial the municipalities Capital Expenditure has been below the national norms as stipulated by Circular 71. For the 2017/18 financial year the Municipality rolled over in excess of R185 million and for the current year a downward adjustment of R40.05 million was recorded in the mid-year adjustment budget.

In view of the above findings it is recommended that the Municipality consider current and past spending trends which set the baseline and therefore have an impact on future budgetary provisions as well as the credibility of the tabled budget.

4.2.2 Expected Outcome of the NEW MTREF Budget

Table 6: Budget overview

Description	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	28 February 2019	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Total Revenue (excluding capital transfers and contributions)	1 663 245	1 792 546	1 887 098	2 249 326	2 132 818	1 510 905	2 321 741	2 509 828	2 700 959
Total Expenditure	1 689 602	1 822 565	2 036 019	2 334 693	2 300 373	1 323 284	2 431 004	2 611 795	2 762 146
Surplus/(Deficit)	**(26 358)**	**(30 019)**	**(148 920)**	**(85 367)**	**(167 555)**	**187 621**	**(109 264)**	**(101 967)**	**(61 187)**
Depreciation & asset impairment	172 647	175 304	186 527	201 673	220 426	99 837	215 870	226 563	237 791
Capital expenditure & funds sources									
Capital expenditure	**317 052**	**544 360**	**652 978**	**454 040**	**615 304**	**296 017**	**379 330**	**303 099**	**300 578**
Transfers recognised - capital	**73 797**	65 440	121 970	74 507	157 489	80 914	150 108	123 099	120 578
Public contributions & donations						–			
Borrowing	**226 358**	453 019	475 935	331 835	390 673	187 809	220 340	180 000	180 000
Internally generated funds	**16 898**	25 900	55 073	47 699	67 142	27 293	8 882	–	–
Total sources of capital funds	**317 052**	**544 360**	**652 978**	**454 040**	**615 304**	**296 017**	**379 330**	**303 099**	**300 578**
Cash flows									
Cash/cash equivalents at the year end	**324 705**	**289 281**	**229 100**	**195 801**	**202 450**	**125 272**	**116 171**	**115 988**	**153 658**

Source: 2019/20 MTREF Budget

Findings, Risks and Recommendations

The Municipality tabled a deficit budget that is on a decreasing trajectory over the MTREF. It should be noted that a deficit is not an indication that the budget is unfunded however it can be an indication of financial imbalances that. The deficit is mainly caused by non-cash expenditure item namely depreciation.

Deprecation is a proxy for the measurement of the rate of asset consumption and although a non-cash item it should still be factored into tariff setting and revenue projection/s in order to replace, renew or upgrade infrastructure.

In view of slow economic growth, increase service demands, a weakened economic outlook that will exert pressure on disposable income of consumers, climate change as well as fiscal constraints to persist over the medium term, the Municipality is urged to continue to apply **fiscal discipline** and practice prudent financial management in order to ensure long term financial sustainability and **maximum citizen impact**.

The expansion of the revenue base should be a key financial lever in the long term financial plan as the Municipality is already increasing all the main services and property rates above inflation to recoup costs which could lead to the municipal bill eventually becoming unaffordable over an extended period of high increases.

Review of the Budget Assumptions

Purpose: To establish whether the budget documents provide minimum information/ narratives/explanations to inform/motivate budgetary provisions.

Table 7: Budget Assumptions

No.	Description of the Budget Assumptions
1.	The forecasted CPIX is estimated at **5.2%** for 2019/20, **5.4%** for 2020/21 and **5.4%** for the 2021/22 financial years.
2.	The 2019/20 budget was prepared on a projected revenue collection rate of **97.8** per cent of annual billing.
3.	The following principles and **tariff increases**, based on the cost reflectiveness of the tariffs are proposed: • Property Rates = **8.2%** • Electricity = basic levy increases by **14%** and consumption by **14%** (with a free 50 kWh per month to indigent households only, to be taken from the Equitable share). • Water = Basic levy increase by **6%** and consumption by **6%** (with 6 kilolitres plus the basic levy for water free of charge to indigent households). • Wastewater = **11%** • Refuse = **10.8%**
4.	Employment related costs for the 2019/20 MTREF period was budgeted based on an annual increase of **6.7%** (exclusive of annual notch increases).
5.	Bulk electricity purchases are projected to increase by **15.63%** and Bulk water purchases are projected to increase by **17.9%** in the 2019/20.
6.	The seven strategic objectives the budget are linked to are as follow: • Governance and Stakeholder participation; • Financial Sustainability; • Institutional Transformation; • Ensure efficient infrastructure and energy supply; • Facilitate sustainable economic empowerment for all communities; • Contribute to the health and safety of communities; and • Assist and facilitate with the development and empowerment of the poor and the most vulnerable.
7.	Grants and subsidies are based on the Provincial Gazette and Division of Revenue Act.

Findings:

The overall budget assumptions as outlined in the budget narrative are credible, reasonable and aligned to National Treasury guidelines however the following needs to be considered with the finalisation of the annual budget for adoption:

- The electricity tariffs and bulk increase granted for municipality were publish by NERSA post the preparation of the budget and the Municipality should update the assumptions, operating budget and tariff list accordingly;

- As a prudent measure the Municipality need to consider reviewing the collection rate of service charges in view of the current and audited outcome collection rate as well as taking into consideration the projected tariff increases.

4.2.3 Adequacy of Revenue Management Framework

Table 8: Operating Revenue Budget

Description	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue By Source									
Property Rates	209 109	226 129	245 517	305 831	275 982	275 982	305 350	333 918	364 724
Service charges - electricity revenue	882 311	957 981	950 979	1 066 321	1 020 424	1 020 424	1 174 136	1 312 749	1 433 903
Service charges - water revenue	143 743	128 849	193 864	246 100	181 585	181 585	186 321	197 501	209 351
Service charges - sanitation revenue	64 511	70 696	84 208	108 044	94 551	94 551	116 092	128 862	143 037
Service charges - refuse revenue	72 572	75 415	85 034	111 452	102 521	102 521	125 004	136 314	148 686
Service charges - other									
Rental of facilities and equipment	24 468	27 520	8 581	3 726	3 838	3 838	15 852	16 959	18 146
Interest earned - external investments	19 255	22 063	21 665	22 000	12 000	12 000	12 000	12 000	14 000
Interest earned - outstanding debtors	11 144	14 639	18 509	15 978	11 630	11 630	12 543	13 507	14 550
Dividends received	15	15	–	–	–	–	–	–	–
Fines	52 590	69 610	92 938	69 847	98 222	98 222	89 068	89 079	89 089
Licences and permits	15 857	15 874	17 329	4 640	4 079	4 079	4 289	4 585	4 904
Agency services	–	–	–	–	–	–	–	–	–
Transfers recognised - operational	130 962	153 789	152 320	265 112	258 836	258 836	244 102	234 428	229 388
Other revenue	36 708	29 967	27 465	30 024	29 309	29 309	28 483	29 677	30 932
Gains on disposal of PPE	–	–	(11 311)	250	39 841	39 841	8 500	250	250
Total Revenue (excluding capital transfers and contributions)	1 663 245	1 792 546	1 887 098	2 249 326	2 132 818	2 132 818	2 321 741	2 509 828	2 700 959

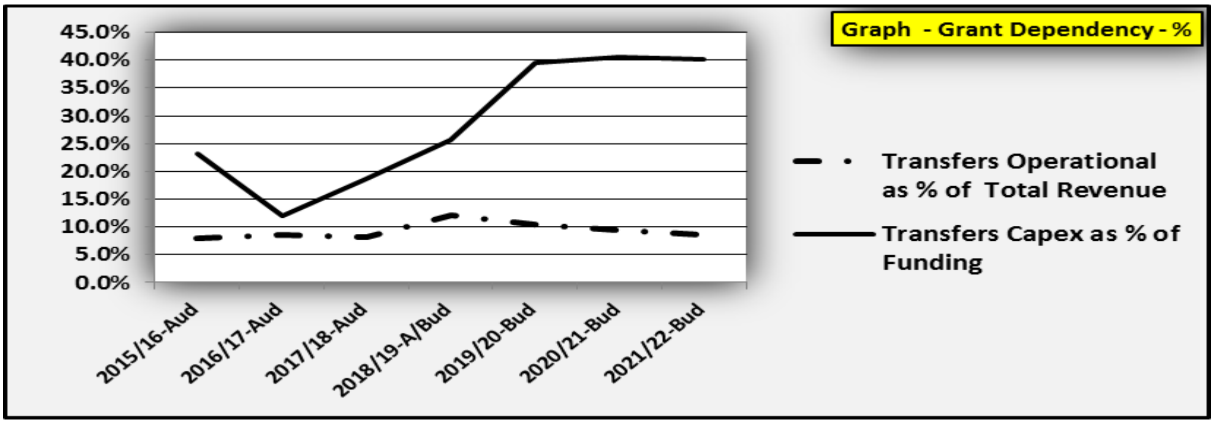
Source: 2019/20 MTREF Budget

Drakenstein Municipality anticipates to realise an increase in total operating revenue of 8.9 per cent for the 2019/20 budget year which indicate real growth when discounted for inflation. The Municipality is highly dependent on internally generated revenue with the major operating revenue sources being service charges (69%) and property rates (13.3%).

Property rates are the second highest component of the operating revenue budget and amount to 13.3 per cent on average over the MTREF. The total market value of properties (Table SA12(a) and 12(b)) show an increase of 5.5 per cent or R3.11 billion year-on-year with no delineation between the category as the total sum of market value is lumped under residential. As per the guidance of MFMA circular 89 the budget narrative should outline the basis for the increase of rates tariff and rates base and how it aligns to revenue forecasts. MFMA Circular 93 require municipalities to submit a copy of the approved current and supplementary General valuation roll in support of realistically anticipated property rates revenue projections. The Municipality is commended for submitting the relevant information and a reconciliation between the general valuation and properties on the financial system. A detail variance report was submitted and the Municipality committed to do a data cleansing exercise before the finalisation of the final budget. It is hereby recommended that municipality update the A-schedule with the market value per category of rate payer and outline in the budget document the basis for the projected budget increase.

The Municipality is self-supporting with no significant reliance on grants and subsidies which amount to 9.4 per cent of total revenue to fund its daily operations over the MTREF. However, it was noted historically the Municipality recorded underspending of grants therefore in view of fiscal constraints to persist over the MTREF the Municipality is hereby urged to put controls or measures in place to fully spend grant allocations to avoid retention and or reduction of grant monies.

Figure 1: Grant Dependency



Source: 2019/20 MTREF Budget

Electricity revenue will be increasing by 15.1 per cent from the 2018/19 financial year and the tariff increase for the 2019/20 budget year will amount to 14 per cent which is slightly above the nominal allowable tariff adjustment based on NERSA approved rates and should be adjusted with the final budget. In view of declining consumption patterns due to price pressures caused by well above inflationary bulk purchase increases which cannot be fully transferred to the consumer and load shedding which are further compounded by the expansion of the green energy utilisation and rapid emerging of renewable energy technology will impact surplus margins adversely. The Municipality should give due consideration to the sensitivity of consumer demand in response to price increases as the Municipality had to adjust the original budget materially (R45.90 million or 4.3%) in the current financial year. Therefore, the sustainability of the service over the medium to long term should be monitored and incorporated as an integral element of the long term funding model as energy security has been identified as a catalytically intervention for sustainable development.

The **electricity distribution losses** increased from the 2016/17 financial year by 4 per cent or R25.36 million to 6.6 per cent or R41.89 million in 2017/18. The results are below the national norm of between 7 and 10 per cent however the value of these losses is material hence it would be recommended that the Municipality put measures in place as part of the overall repairs and maintenance strategy to prevent any further deterioration in the reported losses.

Water revenue amounts to 8 per cent of the operating revenue budget in aggregate and will increase by 2.6 per cent which indicates a negative real growth. The projected tariff increase amounts to 6 per cent which is slightly above the upper limit of inflation.

The impact of the drought on water revenue lead to a reduction in demand in response to price elasticity and a survey by the Department of Economic Development and Trade (DEDAT) shows that 90 per cent of businesses reported water saving actions have been implemented or planned. The risk of inadequate water supply and restriction tariffs may have permanently

affected demand of especially water intensive industries, commercial users and high consumption households. The Municipality had to adjust the 2018/19 original budget by R64.52 million or 26 per cent due to planned revenue for water not realised which could be also attributed to the implementation of punitive tariffs. The aforementioned impact on demand could result in consumers not going back to pre-drought consumption levels after the lifting of restriction tariffs. Hence the revenue projections are under pressure as a result of lower demand becoming the new norm therefore the Municipality is urged to continue to apply fiscal discipline and tariff modelling linked to the long term financial plan which is crucial in realising the desired levels of revenue as consolidation are needed for maximum citizen impact.

The water surplus margins on average amount to 43.1 per cent over the MTREF and are being utilised to cross-subsidise other services. Aging water related infrastructure is a concern for the Municipality as outlined in The Water Service Development Plan (WSDP: 2017 - 2022) of the Municipality and will result in an increase in capital outlay for water infrastructure over the medium to long term. The Municipality is therefore urged to ring-fence a portion of the surpluses as leverage in relation to the water infrastructure pressures to ensure the sustainability of the service over the medium to long term.

The Water distribution losses were calculated at 14.9 per cent in the most recent audit outcome (2017/18) which is below the national norm of 15 per cent to 30 per cent however against the backdrop of a decline in demand and revenue due to the prolonged effect of the drought it is high. The curbing of water losses is an area that can assist the Municipality with addressing the sustainability of the service over the long term if managed effectively through appropriate strategies which might include reticulation leak repair and proactively planning of repairs and maintenance.

The **outstanding debt for water** as at 28 February 2019 is currently the service with the largest long overdue debtors (over 90 days) at R57.54 million. Therefore, the Municipality must stringently apply its Credit Control and debt collection strategy and consider implementing water management devices to curb the upward spiral of long outstanding debt.

Waste water management revenue has been projected to increase by 22.8 per cent for 2019/20 and the tariff increase is well above inflation at 11 per cent. It should be noted for the current year the Municipality had to adjust the waste water revenue downwards with R13.49 million. Provincial Treasury hereby recommend that a balance be strike by the Municipality between competing goals of the affordability, economic growth, the environment and the financial sustainability of the service over the medium to long term.

Waste management amounts to 5.4 per cent on average over MTREF of the operating budget and is projected to increase by 21.9 per cent. The Municipality increased the refuse tariff by 10.8 per cent for the 2019/20 budget year which is above the CPIX projections. It is further noted from the funds and reserve policy perspective the Municipality has no cash-backed reserve for the rehabilitation of the landfill sites which is a risk in view of the sustainability of the service.

Table 9: Trading Services

Description	2015/16	2016/17	2017/18	Current Year 2018/19	2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Adjusted Budget	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue (A4):	**1 163 137**	**1 232 941**	**1 314 086**	**1 399 081**	**1 601 554**	**1 775 426**	**1 934 977**
Service charges - electricity revenue	882 311	957 981	950 979	1 020 424	1 174 136	1 312 749	1 433 903
Service charges - water revenue	143 743	128 849	193 864	181 585	186 321	197 501	209 351
Service charges - sanitation revenue	64 511	70 696	84 208	94 551	116 092	128 862	143 037
Service charges - refuse revenue	72 572	75 415	85 034	102 521	125 004	136 314	148 686
Expenditure (A2):	**1 105 941**	**1 179 380**	**1 107 288**	**1 178 691**	**1 314 031**	**1 433 938**	**1 549 378**
Energy sources	775 943	848 995	813 917	885 331	997 275	1 116 035	1 218 753
Water management	124 377	117 237	97 259	96 882	114 707	121 365	128 442
Waste water management	110 514	115 594	100 857	113 655	116 239	120 715	125 351
Waste management	95 108	97 553	95 255	82 824	85 811	75 822	76 833
Cost of Free Basic Services (SA 1)	**64 956**	**75 355**	**82 519**	**92 526**	**66 025**	**72 945**	**80 158**
Energy sources	15 300	12 338	18 912	19 486	15 436	17 275	18 879
Water management	13 636	18 217	10 672	16 143	8 480	8 989	9 529
Waste water management	11 558	13 880	17 039	20 639	12 317	13 672	15 176
Waste management	24 462	30 920	35 897	36 259	29 791	33 009	36 574
Surplus/Deficit	**122 152**	**128 916**	**289 317**	**312 916**	**353 548**	**414 433**	**465 756**
Energy sources	121 668	121 324	155 974	154 578	192 298	213 989	234 030
Water management	33 003	29 828	107 277	100 846	80 094	85 124	90 437
Waste water management	(34 446)	(31 017)	390	1 535	12 171	21 819	32 862
Waste management	1 926	8 782	25 676	55 956	68 985	93 500	108 426
Surplus/Deficit %	**-3.5%**	**0.9%**	**25.6%**	**31.7%**	**31.3%**	**36.2%**	**38.9%**
Energy sources	13.8%	12.7%	16.4%	15.1%	16.4%	16.3%	16.3%
Water management	23.0%	23.1%	55.3%	55.5%	43.0%	43.1%	43.2%
Waste water management	-53.4%	-43.9%	0.5%	1.6%	10.5%	16.9%	23.0%
Waste management	2.7%	11.6%	30.2%	54.6%	55.2%	68.6%	72.9%

Source: Revenue A4 (excluding grants), Expenditure A2 and SA 1

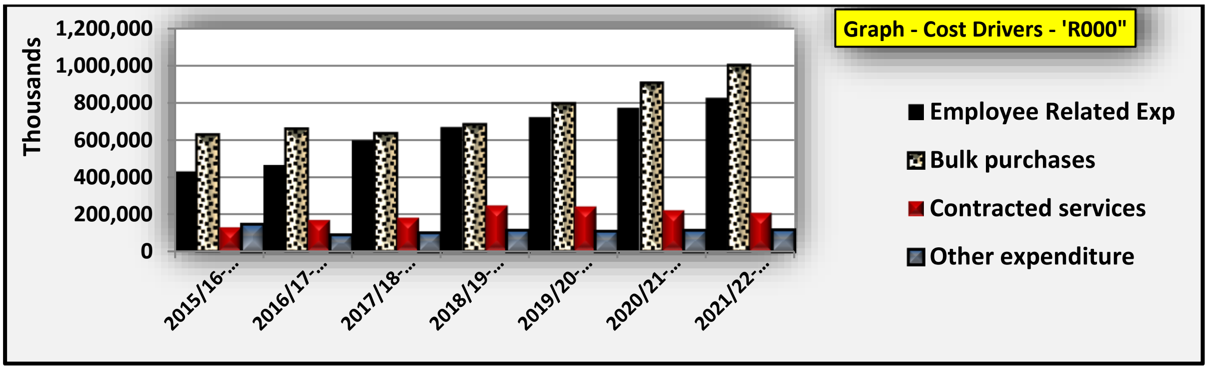
Findings

The table above indicates that all four of the trading services will generate a surplus suggesting that the tariffs are cost reflective after discounted for conditional grants. Notwithstanding the surpluses yielded it should be note the growth in surpluses is less than inflation over the MTREF and therefore a negative growth in real terms.

4.2.4 Adequacy of Expenditure Management Framework

The operating expenditure in aggregate is expected to grow by 6.3 per cent in 2019/20 of which employee related costs (28.3%), bulk purchases (32.7%) and contracted services (9.9%) are the main expenditure drivers for the 2019/20 MTREF.

Figure 2: Main Operating Cost Drivers



Source: 2019/20 MTREF Budget

Employee related costs amount to 28.3 per cent of the operating budget in aggregate with an increase of 8.1 per cent year-on-year. The wage bill is within National norms of 25 - 40 per cent as per MFMA Circular 71 however this expenditure item is growing in excess of CPIX, which will put pressure on available resources.

In view of the current revenue projections and economic outlook, the Municipality is hereby encouraged to monitor employee related costs closely to ensure the expenditure item is within the affordable limits as increases should correspond with adequate revenue provisions as to not adversely impact the financial health of the Municipality. A key consideration is the prioritising of only critical vacancies, avoid excessive overtime and optimising existing staff complement by limiting use of consultants.

Finance charges show an average decrease of 1.5 per cent over the MTREF and a year-on-year decrease of 2.1 per cent. Debt service cost (interest paid and redemption) to total operating expenditure will amount to 14.3 per cent in 2019/20 which is well above the national norm of 6 per cent - 8 per cent and as a result could steadily erode the resources available for the delivery of services if the Municipality does not generate adequate revenue from its capital investment.

Bulk purchases on aggregate amount to R793.94 million or 32.7 per cent of the total expenditure budget over the MTREF of which electricity purchases constitute 98.5 per cent thereof. The year-on-year increase on bulk purchases is 16.4 per cent and the upward pressure is driven by resource scarcity and the deterioration in finances of state-owned entities. The pricing of bulk purchases is set externally however It is recommended that the Municipality be mindful of both electricity and water distribution losses and the impact it has on bulk purchases by ensuring adequate maintenance of distribution infrastructure as well as putting control measures in place in terms of illegal connections, leak repair and assistance to indigents with leak repairs, meter audit, as well as curbing own municipal consumption of electricity and water.

Contracted services amount to R241.19 million constitute an average of 8.6 per cent of operating expenditure which is above the NT norm of 2 - 5 per cent. The main contributions towards contracted services in 2019/20 are other contractors (R89.54 million), safeguard and security (R30 million) and maintenance of unspecified assets (R18.85 million). Provincial Treasury is mindful of the housing top structure budget that are included under other contractors hence inflating this measurement.

However, against the backdrop of employee related cost being the main cost driver, it would be recommended depending on the service delivery model, that the Municipality weigh the cost benefit of building capacity in-house versus the increasing budget allocation to the outsourcing of certain functions to contractors, when reviewing the employee strategy in the long term financial plan. Increase in this measurement can possibility expose the Municipality to other risks such as ongoing reliance on contractors.

Other expenditure - Repairs and maintenance as a percentage of the book value of property, plant and equipment amounts to an average of 4.3 per cent over the MTREF which is well below the 8 per cent as recommended by National Treasury. As outlined in SA1 Repairs and Maintenance budget has increased by only 2 per cent in 2019/20.

In terms of Circular 55 the Municipality must provide a detail explanation on assurance that the budgeted amount is adequate to secure ongoing health of the Municipality's infrastructure, if repairs and maintenance is below the national norm of 8 per cent. It is recommended that the motivation should include a risk based maintenance strategy or system to proactively maintain at the least critical service delivery infrastructure and in order to identify and prevent repeat or systemic failures, especially those that can result in high cost and or sever impact on core service delivery. An integrated asset management strategy is imperative and repairs and maintenance need to be prioritise in order to achieve service delivery objectives and prevent costly deterioration of the condition of infrastructure.

4.2.5 Adequacy of Capital Budget

Main & Supporting Tables: **IDP, A5, A5A, SA18 - SA20, SA28, SA36 & 37**

Table 10: Capital Budget

Vote Description	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital Expenditure - Functional									
Governance and administration	**25 528**	**27 564**	**53 979**	**33 888**	**40 171**	**40 171**	**48 185**	**48 493**	**41 540**
Executive and council	919	5 021	3 633	–	199	199	300	42	50
Finance and administration	24 609	22 544	50 336	33 888	39 913	39 913	47 235	48 451	41 490
Internal audit	–	–	10	–	60	60	650	–	–
Community and public safety	**30 431**	**36 169**	**58 726**	**73 826**	**115 669**	**115 669**	**113 214**	**44 845**	**54 770**
Community and social services	409	6 567	11 567	8 936	5 528	5 528	15 055	5 875	6 850
Sport and recreation	23 265	20 179	16 446	44 501	36 357	36 357	30 048	13 900	18 420
Public safety	3 672	7 470	6	3 590	5 090	5 090	3 091	1 050	900
Housing	3 085	1 953	30 708	16 800	68 693	68 693	65 020	24 020	28 600
Health	–	–	–	–	–	–	–	–	–
Economic and environmental services	**61 588**	**69 785**	**65 154**	**61 958**	**81 354**	**81 354**	**31 805**	**76 255**	**71 095**
Planning and development	341	1 299	133	–	166	166	15	15	15
Road transport	60 868	67 895	65 022	61 958	81 188	81 188	31 790	76 240	71 080
Environmental protection	380	591	–	–	–	–	–	–	–
Trading services	**199 505**	**410 841**	**475 118**	**284 368**	**378 110**	**378 110**	**186 126**	**133 506**	**133 173**
Energy sources	33 969	89 871	145 642	129 470	133 833	133 833	46 930	31 350	27 500
Water management	72 091	124 472	107 563	105 282	175 008	175 008	101 255	23 758	26 113
Waste water management	81 540	191 144	206 320	46 616	66 020	66 020	22 656	69 180	73 561
Waste management	11 904	5 354	15 593	3 000	3 249	3 249	15 285	9 218	6 000
Other	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Functional	**317 052**	**544 360**	**652 978**	**454 040**	**615 304**	**615 304**	**379 330**	**303 099**	**300 578**
Funded by:									
National Government	57 864	42 358	46 531	34 976	64 701	64 701	91 950	51 961	54 578
Provincial Government	15 933	23 082	75 438	39 531	92 788	92 788	55 520	68 420	66 000
District Municipality	–	–	–	–	–	–	–	–	–
Other transfers and grants	–	–	–	–	–	–	2 638	2 718	–
Transfers recognised - capital	**73 797**	**65 440**	**121 970**	**74 507**	**157 489**	**157 489**	**150 108**	**123 099**	**120 578**
Public contributions & donations									
Borrowing	226 358	453 019	475 935	331 835	390 673	390 673	220 340	180 000	180 000
Internally generated funds	16 898	25 900	55 073	47 699	67 142	67 142	8 882	–	–
Total Capital Funding	**317 052**	**544 360**	**652 978**	**454 040**	**615 304**	**615 304**	**379 330**	**303 099**	**300 578**

Source: 2019/20 MTREF Budget

Capital Spending:

The Municipality budgeted for a capital program of R379.33 million which is a decrease from the previous year. The historic spending shows low performance against the mid-year main adjustment budget and the capital spending program show an underspending of R186.69 million or 22.1 per cent against the main adjustment budget of R652.98 million.

The current spending for the period ending 28 February 2019 amounts to 48.1 per cent or R296.02 of the adjusted budget of R615.30 million. The perennial underspending of the capital budget has a spill-over effect and for the current year the Municipality incorporated roll-overs amounting to R183.99 million from the previous year and subsequently had to decrease the

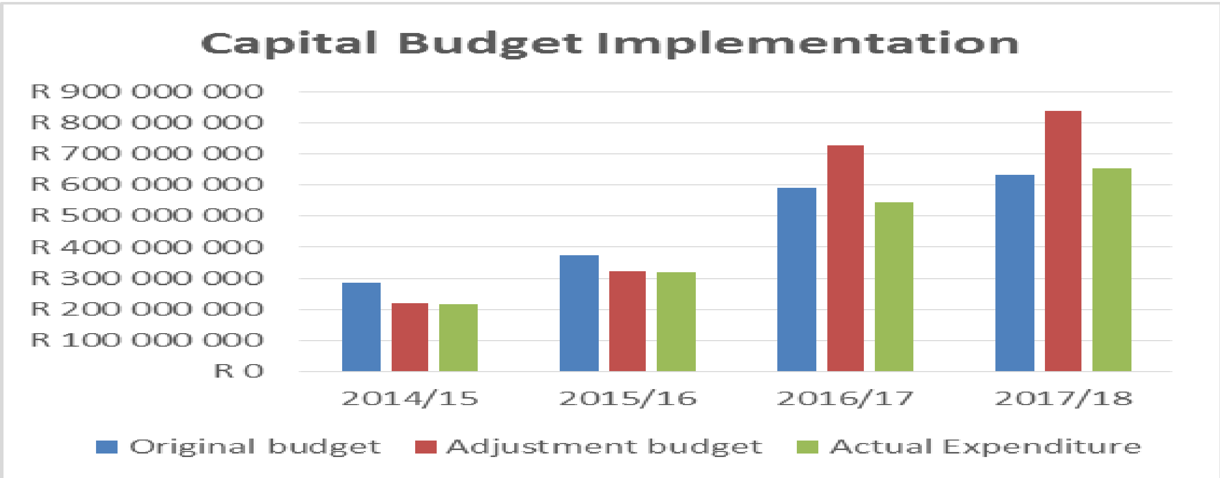
budget in the mid-year adjustment budget as the capital program exceeded the Municipality's capacity to implement.

Table 11: Capital Budget Implementation (2014/15 -2017/18)

Financial Year	Original Budget	Mid-Year Adjustment Budget	Final Capital Spending	Actual % of mid-year adjustment spent	Total Capital projects rolled over
	R'000	R'000	R'000	%	R'000
2014/15	284 824	348 869	215 404	62%	130 498
2015/16	375 837	541 613	317 052	59%	220 548
2016/17	592 474	728 066	544 360	75%	181 994
2017/18	633 142	838 669	652 978	78%	183 990

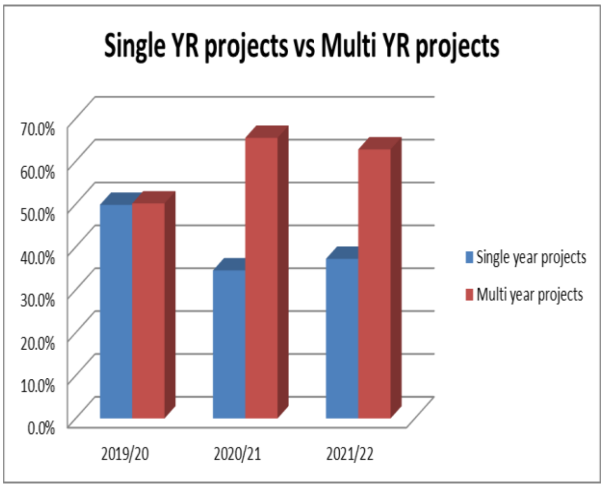
The credibility of the capital budget is therefore affected and the material underspending has an adverse impact on the financial position of the Municipality as most of the projects are funded from borrowings. The Municipality is encouraged to begin its procurement processes before the start of the financial year to mitigate the risk of underspending which remains a major concern. The Municipality should continuously monitor the implementation of strategies addressing the management of the capital budget.

Figure 3: Capital Budget Implementation



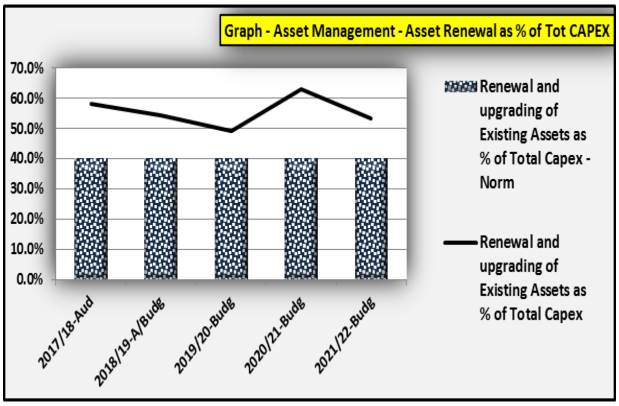
Source: LG Database and 2019/20 MTREF Budget

Figure 4: Single-year projects vs Multi-year projects



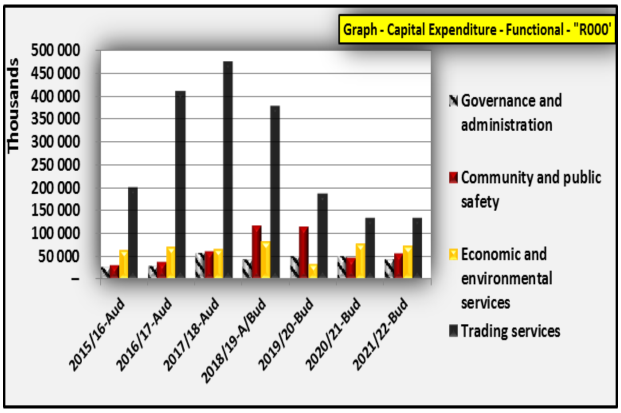
The Municipality does incorporate section 16(3) of the MFMA into the budgeting process, which allows a municipality to appropriate large capital budgets for three financial years. Hence enabling municipalities to improve planning and initiate procurement processes earlier for capital projects in the two outer years of the MTREF. On aggregate the multi-year projects account for 59.5 per cent of the 2019/20 MTREF budget. With the finalisation of the annual budget for approval it is recommend that the Municipality review the delineation of single versus multi-year projects as in aggregate it is not consistent with the total capital program.

Figure 5: Asset Renewal and Upgrading vs Total Capex



The allocated budget to secure the on-going health of the Municipality's existing infrastructure is commendable as the Municipality intends to use on aggregate R35.04 million (10.4 per cent) and R144.24 million (44.7 per cent) of the total capital budget for the renewal and upgrade of existing assets respectively, which in aggregate is above the national guideline of 40 per cent as per MFMA Circular No. 55.

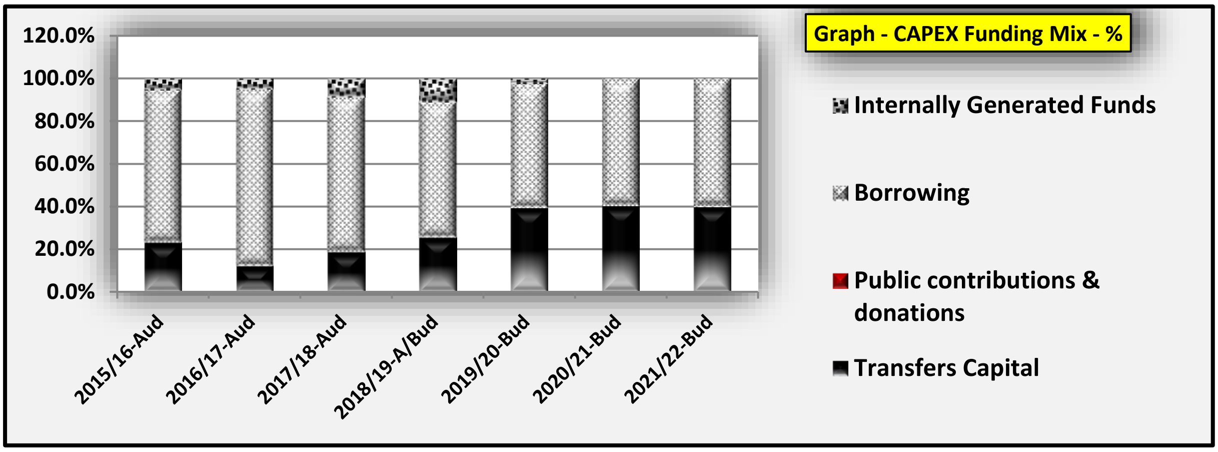
Figure 6: Capital budget functional classification



Trading services constitute 49.1 per cent of the total capital budget and it is thus evident that the capital budget of Drakenstein Municipality is largely vested in trading services, of which 26.7 per cent or R101.26 million thereof is appropriated for water management.

Capital Funding Model

Figure 7: Capital Funding Mix



Source: 2019/20 MTREF

Grant funding amounts to an average of 40.1 per cent over the MTREF which shows that the Municipality is partly grant dependent to fund the capital budget. The year-to-date spending for the current year show low grant spending at 51.4 per cent. The Municipality has raised it in the budget document and in past engagements that their grant allocation is low for a secondary city however slow capital performance can result in reduction or retention of grant allocation and the Municipality is hereby urged to put measures in place to fully spend the budget of grant funded capital projects.

The Municipality has a very high reliance on external borrowings to fund the capital budget as 59.1 per cent or R580.34 million on aggregate of the capital program over the MTREF is funded from this source. Drakenstein Municipality has a high gearing ratio which will amount to 77.9 per cent in 2019/20 and by the end of the MTREF totalling 66 per cent which is above the national norm as set in MFMA Circular 71 however the downward trajectory towards a more sustainable level is noted.

Table 12: Gearing Ratio over the MTREF

MFMA Circular 71 Gearing Ratio Calculation	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Current Borrowing	184 493	201 102	216 784
Long Term Borrowings	1 623 817	1 602 715	1 565 931
Total borrowings	**1 808 309**	**1 803 817**	**1 782 715**
Operating Revenue less conditional grants	2 321 741	2 509 828	2 700 959
Gearing ratio	**77.9%**	**71.9%**	**66.0%**

Capital budget funded from internally generated funds amounts to R8.88 million over the MTREF and the Municipality has a limited available reserves for the replacement, upgrading and renewal of assets.

The municipal capital funding mix is unbalance with an over reliance on borrowing with no reserves. The Municipality embarked for the past five years on an aggressive uptake of borrowings. Borrowings is an important element of the funding model and will ensure that the user pay for the use of infrastructure over the life time of the assets. However, if borrowing is not leverage with reserves that can be utilised for smoothing it will have an adverse impact on the financial sustainability over the medium to long term as well as the liquidity position. The low capital performance of the Municipality exerts further pressure on the funding model of the Municipality as it delays return on investment. A balanced funding mix is important given the changing nature of the infrastructure demands and the concomitant impact on the municipal bill. The Municipality is hereby urged to review the funding model in line with the historic spending capacity and reduce the gearing gradually to a more affordable level as an integral element of the long term financial plan.

4.3 ESTABLISH THE LEVEL OF FUNDING THE BUDGET

4.3.1 Table A4 – Surplus/Deficit

The purpose of this measure is to assess the overall credibility of the budget in terms of surplus/deficit. Based on a comparison between the A4 (Financial Performance) and the A7 (Cash Flow Statement) (supporting schedule SA 30) the Municipality reported a deficit for the 2019/20 MTREF period.

4.3.2 Table A6 – Financial Position

The table below depicts Ratio Analysis with Trends over the MTREF:

Table 13: Ratio Analysis over the MTREF

	2017	2018	2019	2020	2021	2022
Cash/Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 month	1 month	1 month	< 1 month	< 1 month	1 month
Current Ratio	1.17	0.95	1.32	1.09	1.09	1.16
Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure	11.7 %	13.7 %	14.7%	14.3%	13.9%	13.6%

Cash and cash Equivalents

The Municipality continued to budget for a positive cash and cash equivalents throughout the MTREF financial years of R116 million; R115 million and R153 million respectively. The Municipality showed an increase of its cash and cash equivalents over the MTREF budget, however the matter still remains a concern taking into account the non-disclosure of other commitments and applications as per Table A8.

Current Ratio

The Municipality's budgeted current ratio shows a performance that is below the National Treasury Norm of 1.5 to 2.1. The budgeted current ratio is reported to be 1.09; 1.09 and 1.16 for the 2019/20, 2020/21 and 2021/22 years respectively. This ratio depicts that the Municipality does not have adequate financial resources to meet its short term debts. This is also an indication that the Municipality is exposed to liquidity risk.

Cash Cover Ratio

The cost coverage ratio is below the NT Norm of between 1 - 3 months except in 2021/22. The Municipality reflects a budgeted cost coverage of less than 1 month in 2019/20 and 2020/21.

This indicates that the Municipality will not have sufficient working capital to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue for the month. The Municipality is likely to face liquidity challenges if there should be deterioration in the debtors.

Cash Flow – Table A7: Capital Cost (Interest Paid and Redemption/Total Operating Expenditure)

The Municipality reported a capital cost ratio of 14.3 per cent, 13.9 per cent and 13.6 per cent which are above the National Treasury Norm of 6-8 per cent over the MTREF financial period. This indicates that the Municipality has no capacity to take on additional financing from borrowings to invest in infrastructure projects. Emerging from the reported cost of capital ratio, the Municipality should be cautious not put its revenue under pressure since the ratio has reached the limits set up by National Treasury.

It should be noted that the Municipality has reported net cash deficit on Table A7 and SA30 which is of concern particularly that the Municipality does not have cash reserves to absorb the net cash held. The exacerbation and the continuation of these net decreases have a potential of exposing the Municipality to liquidity challenges.

Summary

- The Municipality's working capital shows a favourable results and shows that the debtors exceeds the creditors over the MTREF, however a concern is that the majority of outstanding debtors are older than 90 days which are difficult to recover.

- The current ratio, liquidity ratio and cash cover ratio are below the NT Norm. A concern is the fact that the cash cover ratio is less than one month in both 2019/20 and 2020/21 financial years, indicating that the Municipality will not have adequate cash to its monthly operating expenditure. The Municipality should consider strengthening its cash and cash equivalents as well look at its expenditure line items during the final budget in order to improve its financial ratios.

- The Municipality may not have the ability to meet its short term obligations with its financial position and should be improved.

4.3.3 Table A7 – Cash

The Municipality reported a positive budgeted cash and cash equivalents of R116.44 million; R145.13 million and R189.11 million for 2019/20, 2020/21 and 2021/22 respectively for the MTREF period as reflected in Table A7.

The Municipality have budgeted for a deficit of R109.3 million; R101.9 million and R61.2 million for 2019/20, 2020/21 and 2021/22 respectively. Indicating that the Municipality does not have cash back reserves to absorb these substantial deficits over the 2019/20 MTREF. Although the Municipality has shown that it will realise a surplus on its cash flow statement but the when comparing the cash flow revenue and expenditure, it will be absorbed by the financing and investing activities resulting to net cash decrease of R86.3 million. Furthermore, the Municipality

does not have adequate cash reserves from the long-term investments to absorb the net cash decline.

The Municipality is unable to make further contributions to its reserves as also indicated on Table A8. The Municipality has shown sustainability threats to its going concern, financial ratios also advocating the liquidity exposure and cash flow challenges experienced, its inability to cash fund the MTREF budget, persistent deficits shown in the MTREF period.

Summary

- The Municipality's budget is not cash funded and therefore there are threats of going concern and sustainability over the MTREF. The Municipality must table a cash funded budget during the final adoption of the MTREF of 2019/20 to 2021/22.
- The Municipality continues to budget for a deficit when comparing its revenue and expenditure which results to its inability to make contributions to the reserves. Hence it is emphasised that the Municipality must continue to collect all revenue that are due to the Municipality timeously and monthly.

4.4 SUSTAINABILITY OVER 2019/20 MTREF

4.4.1 Service Delivery, Financial and Operational Sustainability and Asset Management

Table 14: A8 – Application of Cash and Investments

Description	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework					
R thousand	Original Budget	Adjusted Budget	Full Year Forecast	PT Recalculations	Budget Year 2019/20	PT Recalculations	Budget Year +1 2020/21	PT Recalculation	Budget Year +2 2021/22	PT Recalculation
Cash and investments available										
Cash/cash equivalents at the year end	195 801	202 450	202 450	202 450	134 865	134 865	201 143	201 143	312 534	312 534
Other current investments > 90 days	–	(0)	(0)		–		–		–	
Non current assets - Investments	133	133	133	133	133	133	133	133	133	133
Cash and investments available:	195 934	202 583	202 583	202 583	134 998	134 998	201 276	201 276	312 667	312 667
Application of cash and investments										
Unspent conditional transfers	34 858	34 858	34 858	34 858	34 858	34 858	34 858	34 858	34 858	34 858
Unspent borrowing	76 000	76 000	76 000	119 928	–	60 340	–		–	
Statutory requirements	–	–	–		–		–		–	
Other working capital requirements	(176 275)	(171 043)	(171 043)	–	(154 440)	(38 495)	(169 712)	(37 629)	(185 383)	(36 355)
Other provisions	–	–	–		–	75 425	–	83 530	–	91 635
Long term investments committed	–	–	–		–		–		–	
Reserves to be backed by cash/investments	–	–	–		–	73 745	–	73 745	–	73 745
Total Application of cash and investments:	(65 417)	(60 185)	(60 185)	154 786	(119 582)	205 872	(134 854)	154 503	(150 525)	163 882
Surplus(shortfall)	261 351	262 769	262 769	47 797	254 580	(70 874)	336 131	46 773	463 193	148 785

Source: 2019/20 A-Schedules

The analysis of the A8 (Application of Cash and Investments) indicates that the Municipality is reporting a surplus over the MTREF period). A number of variances with the analysis of Budget Table A8 was noted and therefore Provincial Treasury recalculated some line items based on the following principles which is also congruent with the Funding and Reserve policy:

- The Municipality did not report any unspent borrowings whilst past trends show significant roll-overs. On average the Municipality rolled-over R177.68 million for the past 4 years of which borrowing amount to 65 per cent or R115.49 million thereof. For the most recent audit outcome the Municipality rolled-over projects funded from borrowing as per the August

Adjustment Budget amounting to R119.93 million. In the February 2019 adjustment budget R60.34 million of the projects funded form borrowing was adjusted downwards and rolled over to 2019/20 budget year.

- The unspent conditional grants reported are the same amount over the entire MTREF.
- As per the funding and reserve policy the Municipality should cash-backed the short term portion of rehabilitation of landfill sites and Capital replacement reserves which have not been included in A8.
- The debtor's collection assumptions used to calculate working capital are above the past trends of collection which could distort the amount of debtors. The creditors payment period was brought in line with historic trends.
- The provision to be cash backed base on the municipal funding and reserve policy were based on the 2017/18 Annual Financial Statements and include short term portion of provision which include rehabilitation of landfill sites, leave, etc.
- Capital Replacement Reserve (A-Schedule Table A6) and Housing Development Fund amounting to R45 million and R28.75 million respectively were updated on the schedule as attached.

If the aforementioned is taken into consideration it will result in the budget be unfunded for the 2019/20 budget year which raise the risk if the Municipality does not maintain the budgeted collection rate the annual budget will become unfunded. It should be noted that unspent borrowing is very conservative recalculated as past trends show roll-over of over R100 million hence the Municipality should apply stringent financial and fiscal constraints in order to remain financial sustainable over the MTREF.

4.4.2 Funding Measurement

Table 15: Schedule SA10: Funding Measurement

Description	MFMA section	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Funding measures												
Cash/cash equivalents at the year end - R'000	18(1)b	1	324 705	289 281	229 100	195 801	202 450	202 450	202 450	134 865	201 143	312 534
Cash + investments at the yr end less applications - R'000	18(1)b	2	317 228	273 225	164 515	261 351	262 769	262 769	338 769	254 580	336 131	463 193
Cash year end/monthly employee/supplier payments	18(1)b	3	3.0	2.4	1.7	1.3	1.4	1.4	1.4	0.8	1.2	1.7
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	72 327	60 242	6 764	(434)	4 567	4 567	4 567	12 944	18 414	59 391
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	N.A.	0.3%	0.9%	11.8%	(14.9%)	(6.0%)	(6.0%)	7.8%	4.6%	3.0%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	89.7%	91.4%	87.0%	94.2%	92.9%	92.9%	92.9%	93.8%	94.1%	94.4%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	6.2%	7.2%	8.2%	5.5%	7.7%	7.7%	7.7%	6.6%	6.1%	5.8%
Capital payments % of capital expenditure	18(1)c;19	8	85.4%	115.6%	125.3%	129.2%	113.6%	113.6%	131.0%	90.0%	90.0%	90.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	95.4%	104.7%	118.2%	109.9%	80.5%	80.5%	100.0%	76.8%	169.6%	183.5%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10								101.4%	99.5%	100.3%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	9.4%	24.1%	3.2%	0.0%	0.0%	0.0%	(5.3%)	3.9%	3.9%
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	(22.7%)	(42.0%)	61.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	13	3.8%	3.9%	4.4%	4.1%	4.1%	4.1%	4.2%	4.1%	4.3%	4.5%
Asset renewal % of capital budget	20(1)(vi)	14	31.1%	39.0%	20.7%	26.4%	18.0%	18.0%	0.0%	14.5%	11.8%	11.9%

Source: 2019/20 MTREF Budget

Findings:

Cash and Cash equivalents

A positive cash and cash equivalents has been reflected for each year over the medium term.

Cash at year end/monthly employee supplier payments

The cash at year end versus employee and supplier payments is 0.8 times in 2019/20 and will increase marginally to 1.2 times in 2021/22 and 1.7 times in 2021/22. The purpose of this ratio is to measure if the Municipality is able to meet its monthly payments when they fall due or an unexpected disaster threatens revenue collection. The ratio indicates the Municipality would be unable to fully pay operational costs equal to a month and therefor does not have adequate working capital and indicates a liquidity risk for a municipality the size of Drakenstein.

Surplus/(Deficit) excluding depreciation offsets

Drakenstein projected a surplus over the entire 2019/20 MTREF period which is an improved position in comparison to the previous budgetary period.

Capital payments % of capital expenditure

This ratio assessed the extent to which budgeted capital expenditure will be spent during the budget year and the Municipality projected a 90.0 per cent capital payment percentage which is below the national norm of 95 per cent as per the MFMA Circular 71. This is however a prudent approach based on past trends.

Current consumer debtors % of change

The Municipality's outstanding debtors are projected to decrease at 5.3 per cent for 2019/20 and increase by 3.9 per cent in the two outer years.

4.4.3 Forecasting and Multi-Year Budgeting

On assessment of supporting Tables SA25 to SA30 it is evident that Drakenstein Municipality has taken into account seasonal fluctuations and that linear projection has not been used.

The Municipality has applied multi-year budgeting which can be ascertained by the fact that on average, multi-year projects account for 59.5 per cent of the total capital budget over the MTREF.

SECTION 5: KEY FINDINGS, RISKS AND RECOMMENDATIONS

This section outlines the main points and risks/recommendations based on the LG MTEC Assessment.

5.1 RESPONSIVENESS

5.1.1 Environmental Analysis

- The cumulative impact of the additional storage on the Berg River is of high concern. Although many of the applications have existing abstraction rights, storing of all of the existing rights will have an impact on Ecological Flow Requirements.
- Informal settlement expansion continues to be an issue which poses a threat of pollution to the Berg River.
- The SDF should in future expand on the how WCBSP has taken climate change into consideration and make the link as to how using the WCBSP as a key informant will help reduce disaster risk to settlements as well.
- The Municipality needs to ensure alignment of the waste management progress report (Annual Report 2017/18 (Volume I)) with the IWMP implementation plan and provide the final copy of the Annual Report to the DEA& DP.
- The IDP needs to be updated based on the recommendations outlined in the Assessment of the Municipal Integrated Waste Management Infrastructure: Cape Winelands District Report.
- An AQMP budget allocation needs to be secured in the IDP. Funds should ideally cover the following: air quality monitoring (passive or continuous monitoring of air pollutants), staff training and implementing air quality intervention strategies.
- Drakenstein Municipality is confronted with a high population growth rate coupled with slow economic growth which aggravates unemployment, high drop-out rates, poverty and inequality as well as high crime rates.
- The WCG and the Municipality plan to collectively spend R573.965 million in the 2019/20 MTREF on infrastructure developments within Municipality's geographical boundaries. Investing in infrastructure operations and maintenance offers promising opportunities for economic stimulation: jobs are created, poverty decreases and sustainable basic service delivery can be achieved.
- The strong focus in operating budget (67.4% in 2019/20) towards the infrastructure-related strategic objective bodes particularly well for increased operational costs associated with extending the basic services network.
- The creation of 2000 job opportunities through EPWP and LED will provide poverty relief by bringing much needed income to households particularly if those jobs could be translated into permanent employment opportunities.
- Free basic service allocations will bring much needed poverty relief to indigent households within the municipal area.

- With the Drakenstein SDF Review process underway both a Capital Expenditure Framework and Implementation Plan should be included in the SDF. The spatial depiction of development programmes will assist in the prioritisation of this spending.

5.1.2 Credibility and sustainability

- The Municipality has tabled the 2019/20 MTREF within the legislative timeframe which is viewed as a credible however not sustainable as the tabled budget cannot be regarded as funded. Analysis of the main Schedule A8 (Application of cash and investments) show restated cash deficit of R113.31 million for the 2019/20 budget year as the commitments (application of cash and investments) exceeds the available cash and investments. A major commitment omitted by the Municipality is the unspent borrowings (60.34 million) and short term provisions (R79.37 million) that should be backed by cash as per the municipal funding and reserve policy. The municipal budget further indicates towards significant liquidity risk as the current ratios in the most recent audit as well as projections over the 2019/20 MTREF show results below the norm of 1.5:1 which is a strong indicator of the municipal ability to meet short term obligations.

- Against the background of an expected growing population that will result in an increase demand for services, maintenance and renewal requirements of critical service delivery infrastructure, constrained economic and fiscal outlook, prolonged impact of the drought, the Municipality should continue to focus on consolidation for maximum citizen impact. A key consideration is the adopted whole-of-society approach which enable the strengthening of coordination among key stakeholders including communities, business, intergovernmental organisations to achieve strategic and social economic goals.

- In view of slow economic growth, increase service demands, a weakened economic outlook that will exert pressure on disposable income of consumers, climate change as well as fiscal constraints to persist over the medium terms the Municipality is urged to continue to apply fiscal discipline and practice prudent financial management in order to ensure long term financial sustainability and maximum citizen impact.

- From a revenue perspective the two major service charges water and electricity experience pricing pressures due to well above inflationary increase of bulk purchases, increased capital outlay funded from borrowings compounded by restrictive tariffs cause by the drought, expansion of green economy and renewable technologies which raise the risk of demand patterns being permanently affected as major non-resident and high consumptions residential consumers are finding alternative sources for energy and water off the grid. The aforementioned will have an adverse impact on the surplus margins therefor the sustainability of these trading services over the medium to long term should be monitored and incorporated as an integral element of the long term financial plan as sustainable development in the area hinges on energy security and adequate water supply.

- The current and historical trends show that the collection rate of Drakenstein Municipality fluctuates year-on-year and in light of a number of services and property rates increasing above inflation the Municipality is hereby urged to stringently apply the credit control and debt collection policy and ensure that proposed tariffs strike the right balance between competing economic, social and environmental objectives.

- Although the municipal wage bill is within the national norm and on the affordability limit as set in budget, funding and reserve policy it is growing in excess of CPIX and will place pressure on available resources effective management of employee related costs as one of the largest expenditure components is recommended in relation to the revenue growth.

- Repairs and maintenance remains low against national norms and standards. It should however be noted that it is recommended that the Municipality provide detail explanation on assurance that the budgeted allocations is adequate to secure ongoing health of infrastructure if below the set norm and supported by a risk based maintenance plan taking into consideration reactive versus planned maintenance, renewal of assets and the long term cost of the decline of asset on the operating budget if not adequately maintain.

- The credibility of the capital budget is affected due to material underspending that also has an adverse impact on the financial position of the Municipality as most of the projects are funded from borrowings therefor measures should be put in place to expedite spending.

- The municipal capital funding mix is unbalance with an over reliance on borrowing with no reserves and the municipal gearing exceeds 70 per cent of revenue excluding conditional grants which is well above the affordability norm of 45 per cent. Borrowings is an important element of the funding model and will ensure that the user pay for the use of infrastructure over the life time of the assets. However, if borrowing is not leverage with reserves that can be utilise for smoothing it will have an adverse impact on the financial sustainability over the medium to long term as well as the liquidity position.

- The low capital performance of the Municipality exerts further pressure on the funding model of the Municipality as it delays return on investment. A balanced funding mix is important given the changing nature of the infrastructure demands and the concomitant impact on the operating budget and municipal bill. The Municipality is hereby urged to review the funding model in line with the historic spending capacity and reduce the gearing gradually to a more affordable level and included as an integral element of the long term financial plan.

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LG MTEC Engagement

Council Chambers | 2 May 2019

Integrated Development Plan

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2018-2024 IDP: 2019 Review

- The draft 2019 review of the IDP was tabled to Council on 27 March 2019
- Public Participation processes commenced on 7 April 2019 and concluded on 30 April 2019
- IDP Representative Forum will be held on 15 May 2019
- As part of public participation, the municipality embarked on Housing Summits in various wards during March 2019
- In addition, the Mayor hosts Mayoral Business Stakeholder Initiatives on a monthly basis, the purpose thereof to engaged relevant external stakeholders throughout the year

Support Requested

- A centralised system for demographical statistics in order for statistics from various sources to speak to each other
- A dedicated unit/ person from Provincial Government to whom municipalities can disseminate issues emanating from IDP community engagements for the attention of relevant sector departments

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Whole of Society Approach (WoSA)

- Valuable relationship building activities
- Long- and medium-term planning to be underpinned by WoSA principles
- Short-term successes
- Planned and coordinated response to day-to-day challenges to ensure a better service to citizens

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Financial Services

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LG MTEC Engagement

Credibility and Sustainability

Financial Ratios and Norms

Asset management

- Repairs and maintenance on average over the MTREF amounts to 4.3% of the carrying value of PPE compared to the NT norm of 8%. This is consistent with the average of the last three financial years
- To increase it to 8% of the carrying value of PPE another R217.6 million is needed and therefore all tariffs (NERSA regulated electricity tariffs excluded) must increase with another 54.4% over and above the current tariff increases
- This norm can only be applied in municipalities with historical infrastructure values with minimal investment in new infrastructure
- Repairs and maintenance of R253 million for 2019/20 amounts to 10.4% of total operating expenditure. The NT does not have such a norm and should consider introducing such a norm

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Credibility and Sustainability

Financial Ratios and Norms

Debtors management

- The provision for bad debt for the year under review is dependent on what happens in the debtors' book and not what is to be written-off. This points to a lack of understanding by NT & PT between the concept of impairment and writing-off of irrecoverable debt. Therefore the NT norm of 100% should be reviewed
- Council has a Writing-off of Irrecoverable Debt Policy with two incentives and all outstanding debt older than 90 days is simply not written-off because some of the debt is recoverable
- The collection rate was affected by the punitive water tariffs introduced in July 2017 due to the drought and the spiraling increase in water debt due to consumers not immediately adjusting their water-usage patterns. Debt has now stabilized
- The punitive water tariffs and the introduction of water restrictions also lead to water revenue losses

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Financial Ratios and Norms

Debtors management

- The debtors days norm of 30 days, due to the prescripts of the National Credit Act, should be revised to at least 45 days due to three critical factors:
  1. Gross debtors in the notes to the annual financial statements, in terms of the GRAP Accounting Standards, includes accrued water and electricity revenue which is only billed in July the next financial year. Bad debt provision is calculated only what appears outstanding in the real debtor's book and not in the "inflated" debtors' book
  2. Billed revenue in June each year is only payable in July of the next financial year. The norm should be 45 days which was always the acceptable norm before MFMA Circular 71 was issued by the National Treasury
  3. In terms of the National Credit Act, a municipality must give at least 14 days written notice of an action to be taken against a defaulter and that date takes you past the norm of 30 days

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Credibility and Sustainability

Financial Ratios and Norms

Liquidity management

- It is agreed that the current ratio is under the norm of 1.5-2:1. This is influenced by substantial investment in capital expenditure through external borrowings over the past few years and will start to improve, as the gearing ratio is brought down to a more acceptable level of 45% by 2024/25
- It is agreed that as per the NT formula the cost coverage ratio is not within the norm of 1-3 months for the 2019/20 and 2020/21 years. However, based on the Planning and Performance Management Regulations of 2001 cost coverage ratio, calculated on the next slide, the cost coverage ratio is within the norm of 1-3 months for the financial years 2019/20 (1.0 months), 2020/21 (1.5 months) and 2021/22 (2.4 months).
- Increasing the revenue and tax base and improving revenue collection will positively affect the cost coverage and current ratio over the medium to long term

Credibility and Sustainability

Financial Ratios and Norms

Liquidity management

Drakenstein Municipality Cost coverage ratio		2019/20 (R'000)	2020/21 (R'000)	2021/22 (R'000)
Formula: ((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure (salaries and allowances of councillors and officials), Contracted Services (excluding housing grant expenditure), Interest and Redemption)	**Cost coverage ratio (NT formula)**	~~**<1 month**~~	~~**<1 month**~~	~~**1 month**~~
	Cost coverage ratio (DM calculation)	**1.0 month**	**1.5 months**	**2.4 months**
	Cash and cash equivalents	134,998	201,276	312,667
	Less: Unspent conditional grants	-34,858	-34,858	-34,858
	Available cash	**100,140**	**166,418**	**277,809**
	Salaries and allowances of officials	688,302	736,607	787,909
	Allowances of councillors	31,927	33,813	35,810
	Contracted services expenditure (excluding housing grant expenditure)	175,313	171,371	179,098
	Interest on external loans	162,267	160,641	158,357
	Redemption on external loans	184,493	199,879	215,432
	Annual fixed operational expenditure	**1,242,301**	**1,302,310**	**1,376,607**

Credibility and Sustainability

Financial Ratios and Norms

Liability management

- The debt (gearing ratio) will decrease to 47.23% by the 2023/24 financial year by reducing external borrowings for 2019/20 to R160 million and stabilize at R180 million over the next four financial years
- Capital cost as a % of total operating expenditure will also be reduced over the next five (5) financial years, as the municipality starts scaling down on its use of loans to fund capital expenditure
- The norm of 6% - 8% for the capital cost ratio should be reviewed as it does not correlate to the NT gearing ratio norm of 45%. For example, by 2023/24 the gearing ratio for DM is envisaged to be 47.23%, whilst the capital cost ratio is calculated to be 12.8%
- The ratio over the MTREF is below the norm set by the municipality's Borrowings Policy of 15%

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Credibility and Sustainability

Financial Ratios and Norms

Liability management

- Drakenstein Municipality due to abnormal growth and development pressures had to invest substantial capital in new infrastructure and for the renewal/refurbishment of current infrastructure. An amount of R2.345 billion has been invested over the last five financial years
- Capital infrastructure investment over the next five years will be reduced to R1.452 billion (38% less) to bring down the gearing ratio to 47.23% by 2023/24

Support Requested

- Drakenstein needs more grant funding and any support from Province to obtain grant funding from National Government programmes will be appreciated (RBIG, Department of Water Services, Department of Sport and Recreation and INEP)

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Financial Ratios and Norms

Liability management

- The gearing ratio calculated per Table 12 (page 34) is incorrect and the actual gearing ratio calculation is as set out below. Notable is that the gearing ratio in year five (47.23%) is close to the NT norm of 45% but that the capital cost ratio in year five (12.8%) is not close to the NT norm of 6% – 8%. The latter norm needs to be revised

Drakenstein Municipality Gearing Ratio	2019/20 (R'000)	2020/21 (R'000)	2021/22 (R'000)	2022/23 (R'000)	2023/24 (R'000)
Total Borrowings	1,808,309	1,803,817	1,782,715		
	1,608,625	1,588,745	1,553,393	1,502,917	1,433,021
Total Operating Revenue (Conditional Grants Excluded)	2,321,741	2,509,828	2,700,959		
	2,321,741	2,509,828	2,700,959	2,848,295	3,034,386
Actual Borrowings as a % of Total Operating Revenue (Conditional grants excluded)	77.89%	71.87%	66.00%		
	69.29%	63.30%	57.51%	52.77%	47.23%
Capital Cost (Interest and Redemption) as a % of Operating Expenditure	13.83%	13.30%	13.03%	12.77%	12.80%

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Financial Ratios and Norms

Expenditure Management

- The increase in Irregular Expenditure is related to SCM matters that was identified during the 2017/2018 financial year audit. The more material matter (COMAF 1) is one that was heavily disputed by the municipality and we are still of the opinion that the process followed was the correct process and more importantly that the prescribed administrative processes were followed
- With the implementation of mSCOA, the norm (2% to 5%) applied to Contracted Services should be revisited as previous expenditure categories were replaced and a whole host of transactions can now be defined as contracted services where previously it was not the case.
- A specific example is an amount of R65m that is funded by the Department of Human Settlements for the building of houses which is currently included as “Building Contractors”.

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Credibility and Sustainability

Budget Overview

- The operating budgeted expenditure will be cut to ensure a cash funded final operating budget to be approved at the end of May 2019
- The Funding and Reserves Policy of the municipality only refers to the short-term portion of the Rehabilitation of the Landfill Site that needs to be cash-backed. This will be adjusted and the rest of the narratives on the provisions will be updated to speak to the fact that the municipality can reasonably project the physical cash outflow for each of the provisions and that these amounts should be cash backed
- The above is also demonstrated by the inclusion of projected amounts for the outer years. The breakdown will be submitted to the team from PT and assumptions used can be discussed further

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Credibility and Sustainability

Budget Overview

- The Funding and Reserves Policy only refers to the fact that the Capital Replacement Reserve should be cash-backed and is therefore included in our revised schedule
- Trade and other payables which is the main contributor to the difference on the working capital (recalculation by PT based on wrong assumptions made) has also been revised taking the following into consideration:
  - Staff leave provision to be excluded as it is already accounted for under “other provisions”;
  - Trade creditors to decrease with an interest and loan redemption payment that was rejected at year-end. Management will ensure that payment is processed timeously; and
  - A decrease in retention as material multi-year projects are being unbundled and will be commissioned in 2018/2019

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Credibility and Sustainability

Budget Overview

Revised cash backed reconciliation points surplus cash of R121.9 million for the 2019/20 financial year

Revised Table A8: Cash Backed Reserves/Accumulated Surplus Reconciliation

Row Number	Description	2019/20 Medium Term Revenue & Expenditure Framework 2019/20 (R'000)	2020/21 (R'000)	2021/22 (R'000)
Column Reference	A	B	C	D
1	Cash/cash equivalents at the year end	116,171	115,988	153,658
2	Non current assets - Investments	133	133	133
3	**Cash and investments available:**	**116,304**	**116,121**	**153,791**
4	Unspent conditional transfers	34,858	32,858	30,858
5	Unspent borrowing	60,340	–	–
6	Other working capital requirements (Trade Creditors - Debtors at year-end)	(124,756)	(130,028)	(130,699)
7	Other provisions	15,078	43,335	72,461
8	Reserves to be backed by cash/investments	8,882	–	–
9	**Total Application of cash and investments:**	**(5,598)**	**(53,835)**	**(27,380)**
10	**Surplus / (Shortfall)**	**121,903**	**169,957**	**181,171**

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Engineering Services

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Waste Management

- 2nd Generation Integrated Waste Management Plan (IWMP) approved and adopted by DM 2012/13
- 3rd Generation IWMP not submitted to Council, no public participation
- IWMP currently under revision by JPCE (Pty) Ltd
- To be submitted to Council at beginning of 2019/20 financial year after public participation
- Material Recovery Facility (MRF) to be extended/improved in 2019/20 financial year
- Airspace improvement in planning stage consisting of possible footprint expansion and biogas implementation
- Progress report now aligned with IWMP in annual report
- IDP to be updated after current public participation process, also wrt Cape Winelands District Report
- Budget allocation for waste minimization regarded as adequate

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LG MTEC Engagement

Waste to Energy: Lessons Learnt

- Compliance with Public Partnership Regulations
- No findings in relation to Supply Chain Management
- Trigger for Section 78 MSA process
- Poor Inter-governmental Relations
- No coordinated government response to a critical municipal function
- Poor communication
- Poor stakeholder management

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Berg River Water Abstraction

- Uncontrolled abstraction and storage remains concern
- Abstraction at present exceeds allocations
- Aurecon appointed by Dept. of Water and Sanitation (DWS) for verification and validation
- Ecological evaluation to form part of above
- Allocations to be revisited by DWS once report completed
- Control mechanisms for abstraction of water will be implemented by DWS in accordance with report by Aurecon
- Municipal allocation from Riviersonderend System 2109 Ml/a

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EPWP

- Work opportunities (excludes FTE): 2018/19 reached 1279 at April 2019
- Not targeted at permanent employment in municipality
- Aligned with municipal operational requirements
- Experience gained in program provides basis for outside permanent employment
- Number of additional initiatives:
  - Workers trained in use of plant, eg. brush cutters;
  - Opportunities for special workman employment under artisans; and
  - Support of cleaning co-ops with small business development skills

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Community Services

Human Settlements

- We concur with the findings and recommendations of the report
- Provincial Business Plan targets are consulted annually between DHS and the Municipality based on progress with projects on the Housing Pipeline
- 43 Informal Settlements: Besides 12 UISP underway, additional land identified for TRA, UISP and new projects Provincial budget permitting
- Although targets have been agreed upon, the Municipal Housing Pipeline still need to be adjusted to reflect the latest information and will be presented as such in the final IDP to be adopted
- Require alignment between Housing delivery and bulk infrastructure, particularly Vlakkeland further phases, eg Paarl WWTW inlet and electricity
- This will assist to better predict project funding requirements especially bulk services in relation to housing projects as well as the time frame within which it is required
- Key concern however is the Municipality's ability to sustain financially the provision of bulk services to housing projects - especially in the outer years of the MTREF

Disaster Management

- The Disaster Management Advisory Forum was identified and the Forum will meet mid-June 2019
- Ward-based risk assessments will be conducted in 5 wards in our municipal area
- DM has developed a draft disaster management framework to deal with major adverse events e.g. flooding, informal settlement fires, mountain fires, scheduled and National power black-out
- The Corporate Disaster Management Plan is reviewed annually for incorporation into our IDP plan

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Community Safety

- Drakenstein Smart Safety Networks (DSSN): horizontal and vertical integration is critical for success
- This is a WOSA approach based on strong community networks and technology
- Our partners:
  - Neighborhood watches
  - SAPS
  - Private Security Partners
  - CPFs

Taxis and Public Transport

- An Integrated Public Transport Network Plan was developed in collaboration with Cape Winelands District Municipality
- Six new taxi routes were approved which will connect Saron, Gouda, Hermon and Simondium
- Request Province to subsidize these taxi routes
- A Public Transport Impoundment Facility was constructed and subsequently declared by the MEC for Transport for Drakenstein Municipality

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Cemeteries

- Limited burial space in all cemeteries in Drakenstein municipal area
- Environmental authorization needs to be expedited and viewed in the backdrop of the shortage of land versus compliance

Safe Havens

- Drakenstein Municipality like many other municipalities face a huge challenge with homeless people living on the street
- It is not safe and dignified
- Lack of suitable land and space to develop safe haven facilities
- We need support from the Provincial Departments to find sustainable management solutions to deal with the challenges of people living on the street in an urban setting

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Planning and Development

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Spatial Planning and Development

- Commenced review of SDF:
  - Implementation Plan and CEF (IUDF) aligned – regulations required for content
  - HSP review underway – alignment
  - IEGS – ensuring that priority business infrastructure promotes economic diversification
- Issues:
  - Increased Greater Metro Functional Area planning and interaction required (PSP: L Waring and C September)
  - Closer engagement with Stellenbosch
  - Increase in population and job seekers from CoCT which seems to be levelling off
  - Rural development/ Hinterland
  - Impact of evictions
  - Youth unemployment, drop-outs
- Compliance checklist: Note the requirement to Gazette adoption of the MSDF

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Environmental Analysis

Biodiversity

- WCBSP will be a key informant to the SDF – the Critical Biodiversity Areas and the ecological Support Areas included in the current SDF
- Alien Management Strategy: full eradication plan for 2019/2020. Note: Paarl Mountain Nature Reserve has a full species eradication plan as per NEMA: Biodiversity
- Sept 2018 to date: 674.4 ha cleared

Air quality

- AQMP being updated, for approval in 2019/2020
- Budget provision is made, AQO in place who is capacitated

Climate Change

- Dedicated budget and capacity in EM division
- Climate Change Adaptation Plan approved by Council and mainstreamed into work

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Environmental Analysis

Pollution Management

- Compliance checklist corrections:
  - There is a standing agreement and SOP with local and district disaster management
  - Environmental Management is first respondent for S30 incidents, with exception of Denel plant (National Key Point)
  - Records of all incidents are maintained
  - There is a system for monitoring compliance and enforcement
  - Contaminated land register: busy generating a register of closed land fill and building rubble sites to create a GIS layer

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Thank you

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